2017-09-27 - Round 1 - Items for Review.pdf

From: Feather, Adam (ENERGY)
To: Calwell, Carolyn (ENERGY)
Subject: 2017-09-27 - Round 1 - Items for Review
Date: September 27, 2017 9:42:54 AM
Attachments: 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 - DAP.DOCX

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1) Rate Mitigation Implementation – Regular updates. Sunita's team has fed in.

2017-09-08 Consolidated - OFHP Matrix - Week .pdf

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Implementation of Ontario's Fair Hydro Plan

Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid~~ Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projections for PRRT

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Item	Key Deliverables / Considerations	Timing / Next Steps
		submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs. • OEB and MCSS ~~executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP~~completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and • ~~Targeted outreach and automatic SA client enrolment by MCSS to start late September;~~ MCSS to continue developing software solution for automation over next several months. • ~~Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution~~CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance. • ~~SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base~~Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments. • Ministry and OEB have initiated work to transfer OESP to government.	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • ~~Ministry working on post card for FNDC~~FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projection for PRRT. • Hydro One to provide update on program enrollment week of October 2nd.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

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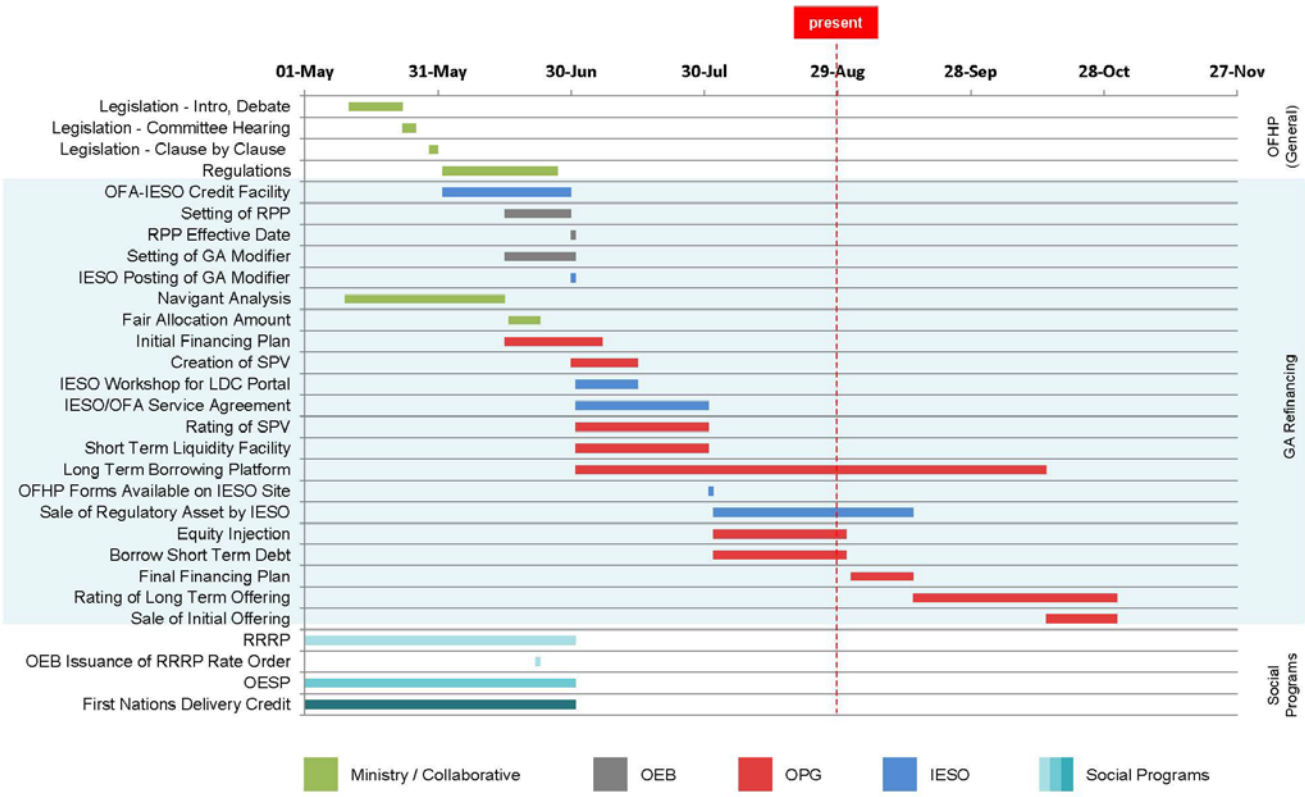
Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• ~~Fall 2017~~2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Commented [SB(1]: OESP implementation should be extended to end of November. It had multiple milestones to date (2 reg changes, 1 leg change, MCSS alignment, 50% + expansion) and has more to come (shift to tax base, government administration, further MCSS automation of OESP).

ADM approved SCOPA Chapter 2 materials.pdf

From:	Cox, Hilary (ENERGY)
To:	Hendy, Adam (ENERGY)
Cc:	Nucciarone, Michael (ENERGY)
Subject:	ADM approved SCOPA Chapter 2 materials
Date:	January 30, 2018 4:58:00 PM
Attachments:	Response Table_Example_20180122 (3) ieso ESP.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG.DOCX SCOPA QAs_MOE_20180129 - SH.DOCX

Hi Comms and DMO –
Attached is the consolidated ESPD ADM approved package of SCOPA Chapter 2 materials.

HC

Response Table_Example_20180122 (3) ieso ESP.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-

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Issue/Consideration	Strategy	Key Messages
		party experts to provide advice and ensure due diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover

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Issue/Consideration	Strategy	Key Messages
	guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

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OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

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OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

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From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

<u>Response</u>

<u>Ontario Power Generation's Qualifications</u>

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

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Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

DRAFT

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

DRAFT

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

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From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Cox, Hilary (ENERGY); Schlaepfer, Martin (ENERGY); Whytock, John (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update
Date:	February 23, 2018 5:34:03 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update.docx

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Hi Martin: attached is the re-framed DM's Q&A/ Key Messages package for SCOPA Chapter 2. As discussed, we've tried to re-package the contact in a format that we typically use at ENERGY rather than the TBS format.

We've also not included Q&As related to IESO and accounting. The Q&A content in the attached is more aligned with the topics highlighted in the Minister of Energy's "swim lane" (e.g., OFHP policy, Records Disclosure / Process, Affordability Fund / Arm's Length Trusts, Electricity Bill Re-Design).

I proposed that we don't update the TB package. This is just for our DM's use.

Hope this helps. Steen

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan

[8] Ontario Financing Authority

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(OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

[9] Ontario Power Generation

[10] Ontario Power Generation

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Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn’t the problem the amount on people’s bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That’s why the government developed Ontario’s Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and

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consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From:	Nucciarone, Michael (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2 Update
Date:	February 23, 2018 10:07:33 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update.docx

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Hi Deputy,

Apologies for the late email.

Attached is the re-framed Q&A/ Key Messages package for SCOPA Chapter 2. Staff have reformatted the contact in a format that we typically use at ENERGY rather than the TBS format.

The Q&A content is aligned with the topics highlighted in the Ministry of Energy's "swim lane" document that was developed early in the process (e.g., OFHP policy, Records Disclosure / Process, Affordability Fund / Arm's Length Trusts, Electricity Bill Re-Design).

Not included are the Q&As related to IESO and accounting.

TBS circulated an updated SCOPA binder earlier this evening, that does not include this revised formatted material. I propose keeping this material for your use.

I'll print off a hard copy for your binder first thing Monday morning.

Thanks,
Michael

Sent with BlackBerry Work
(www.blackberry.com)

Auditor General 2017 Annual Report - SCOPA Ch_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan

[8] Ontario Financing Authority

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(OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

[9] Ontario Power Generation

[10] Ontario Power Generation

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Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn’t the problem the amount on people’s bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That’s why the government developed Ontario’s Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and

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consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Cox, Hilary (ENERGY); Whytock, John (ENERGY); Nucciarone, Michael (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE
Date:	February 26, 2018 5:52:33 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE.docx

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Hi Martin: attached is an updated SCOPA Chapter 2 – Q&A that includes the additional information that the DM was looking for. Need content is highlighted in yellow.

Hope this helps, Steen

Auditor General 2017 Annual Report - SCOPA Ch_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

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- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

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- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

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Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From:	Nucciarone, Michael (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date:	February 28, 2018 10:12:03 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002).docx

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Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP what implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_3.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

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Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Auditor General 2017 Annual Report - SCOPA Chap...(5).pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)-edits
Date:	February 28, 2018 11:17:00 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)-edits.docx

The ICI QA and the basis point info are now highlighted in attached (in blue). For reference, the ICI QA is as below:

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

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[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million. According to the Ontario Financing Authority, this represents a spread of 23 basis points over Ontario long-term debt.

Commented [CT(1]: As reported by OFA in email of Feb 7.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

~~Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.~~]

Commented [CD(2]: Optional 101 content

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The~~se~~ smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Auditor General 2017 Annual Report - SCOPA Chap...(6).pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Nucciarone, Michael (ENERGY); Cox, Hilary (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2 Additional
Date:	February 28, 2018 11:44:36 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2 Additional.docx

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Hi. Attached are supplementation Q&As re ICI and basis point spread.

Re the later point, here's the short answer:

"According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017)".

Steen

Auditor General 2017 Annual Report - SCOPA Ch_5.pdf

Q&A Response – Supplemental Questions

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

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Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years).

- Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

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Auditor General 2017 Annual Report - SCOPA Chap...(7).pdf

From:	Hume, Steen (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Final
Date:	February 28, 2018 3:02:05 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

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Hi. For our files, please have staff save the attached as our final Q&A package with respect to SCOPA Chapter 2.

Thank you,

Auditor General 2017 Annual Report - SCOPA Ch_6.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From:	Hume, Steen (ENERGY)
To:	Hilary Cox (ENERGY) (Hilary.Cox@ontario.ca)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version
Date:	February 23, 2018 1:27:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version.docx

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Hi. Can you have ESPD staff review the fair hydro section one more time.

Thanks,

Auditor General 2017 Annual Report - SCOPA Ch_7.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable energy system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for the typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

The Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FMS) responsible for the financing plans and the Fair Hydro Trust (i.e., entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report. The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

[8] Ontario Financing Authority
[9] Ontario Power Generation

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In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

[10] Ontario Power Generation

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Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with Ontario Power Generation's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meet accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

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At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Commented [HS(1]: Is this previously approved language?

Similarly, the 8 per cent rebate, introduced in January 2017, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

Commented [HS(2]: Do we want to use the "equivalent" language?

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Auditor General 2017 Annual Report - SCOPA Chapt 2(1).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Berry, James (ENERGY)
Cc:	Nekolaichuk, Colin (ENERGY); Den Heijer, Kevin (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2
Date:	March 21, 2018 10:06:18 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (003).docx

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Hi James,

Attached are the Energy QA package that was prepared for SCOPA chapter 2.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_8.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Auditor General 2017 Annual Report - SCOPA Chapt 2.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Cc:	Nucciarone, Michael (ENERGY)
Subject:	Auditor General 2017 Annual Report - SCOPA Chapt 2
Date:	February 26, 2018 6:08:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE.docx

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Hi Deputy,

Attached is the updated SCOPA Chapter 2 – Q&A that includes the additional requested information. New content highlighted in yellow.

Thanks,
Martin

Auditor General 2017 Annual Report - SCOPA Ch_9.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

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The senior officials and staff were from:

- Ministry of Energy;
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- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
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Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. Does OPG make money running the Fair Hydro Trust?

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Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Clean matrix.pdf

DM’s Statement .pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Cox, Hilary (ENERGY); Nucciarone, Michael (ENERGY)
Subject:	DM"s Statement
Date:	February 28, 2018 11:33:57 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 - FINAL_Tracked.docx SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 - FINAL_Clean.docx

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Hi. Apologies for the confusion this morning, please find attached fact checks to the DM's statement (tracked and clean).

I'll bring both clean and track copies to the committee.

Thanks,

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for ~~the OFHP~~Ontario's Fair Hydro Plan.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable. The funding for this investment mostly recovered through the Global Adjustment (GA).

   Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25% ~~per cent~~ on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though the introduction of new and enhanced electricity social programs, such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflects the life of the assets.

   To better understand ~~the~~ Ontario's Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets:

   The first bucket is the Ontario Rebate for Electricity Consumers (OREC) program

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

The second bucket is enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

The third bucket is refinancing the Global Adjustment (GA) over a longer term period of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. ~~That's an 8% rebate~~This provides an average savings of approximately $130 annually or $11 each month. The rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes ~~about~~ nearly five million residential consumers, small businesses and farms.

- The OREC has an approved 2017-18 expenditure of $939 million~~M~~.

The second bucks of initiatives consists of enhancing electricity social programs and shifting costs to the taxbase.

Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following programs:

- A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
    - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.
- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

  - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

  - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.

  - Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that have been made to build a clean and reliable electricity system. This more fairly shares the cost of these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan ~~(OFHP)~~ is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Development of Ontario's Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro ~~Plan~~ Trust) that will manage the debt obligations associated with

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Global Adjustment refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

OPG has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

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In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting*

> *accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

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Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

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When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

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KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

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> statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

2. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

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In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

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As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_1.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for Ontario's Fair Hydro Plan.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable. The funding for this investment mostly recovered through the Global Adjustment (GA).

   Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25% on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though the introduction of new and enhanced electricity social programs, such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflects the life of the assets.

   To better understand Ontario's Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets:

   The first bucket is the Ontario Rebate for Electricity Consumers (OREC) program

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

The second bucket is enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

The third bucket is refinancing the Global Adjustment (GA) over a longer term period of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. This provides an average savings of approximately $130 annually or $11 each month. The rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes nearly five million residential consumers, small businesses and farms.

- The OREC has an approved 2017-18 expenditure of $939 million.

The second bucks of initiatives consists of enhancing electricity social programs and shifting costs to the taxbase.

Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following programs:

- A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
    - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.
- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

  - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

  - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.

  - Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that have been made to build a clean and reliable electricity system. This more fairly shares the cost of these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Development of Ontario's Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations associated with Global

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Adjustment refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

OPG has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

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In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting*

> *accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

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Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

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When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

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KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

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> statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

2. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

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In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

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FW_ ADM approved SCOPA Chapter 2 materials(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: ADM approved SCOPA Chapter 2 materials
Date:	February 1, 2018 3:29:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits.docx SCOPA QAs_MOE_20180129 - DM Edits.docx

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Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - .pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design

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appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

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OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of

important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

   In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

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This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;

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3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;

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4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

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Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for

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> the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   Response

   Ontario Power Generation's Qualifications

   Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

   OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

   In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization

programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As

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previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

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OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

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Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

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[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may

be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

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The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ ADM approved SCOPA Chapter 2 materials(2).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Ho, Larissa (ENERGY)
Subject:	FW: ADM approved SCOPA Chapter 2 materials
Date:	February 1, 2018 3:31:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits.docx SCOPA QAs_MOE_20180129 - DM Edits.docx

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Ava – please review for tomorrow morning.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 1, 2018 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _1.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design

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appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

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OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of

important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

   In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

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This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;

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3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;

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4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

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Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for

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> the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   Response

   Ontario Power Generation's Qualifications

   Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

   OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

   In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization

programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As

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previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

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OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

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Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

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[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may

be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

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The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ ADM approved SCOPA Chapter 2 materials(3).pdf

From: Lightbody, Ava (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials
Date: February 1, 2018 5:39:14 PM

Hello,

Have reviewed our Ch 2 QAs and made some changes to the DM edits. Most is consistent with the OPG technical briefing QAs and other SCOPA materials we've done recently. I tried to refrain from changing the edits too much since they are characterized as "DM" edits, but I would be happy to do more revisions (or less).
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\SCOPA QAs_MOE_20180129 - DM Edits - EPE.docx

Ava

From: Lightbody, Ava (ENERGY)
Sent: February-01-18 4:51 PM
To: Cayley, Daniel (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials

Hi Daniel,

Here is the revised SCOPA ch 2 friendly. I tried to work in the extra content they provided. Reviewing the overall QAs now, so feel free to wait to review this one.
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE.docx

Ava

From: Cayley, Daniel (ENERGY)
Sent: February-01-18 3:32 PM
To: Lightbody, Ava (ENERGY)
Cc: Ho, Larissa (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Ava – please review for tomorrow morning.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 1, 2018 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

FW_ ADM approved SCOPA Chapter 2 materials(4).pdf

From: Lightbody, Ava (ENERGY)
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials
Date: February 2, 2018 1:17:13 PM

Hi Tim,

For your review, edits to DMO's edits to our SCOPA Ch 2 friendly: \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE.docx

And overall SCOPA Ch 2 QAs: \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\SCOPA QAs_MOE_20180129 - DM Edits - EPE.docx

These are due this afternoon.

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: February 1, 2018 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

FW_ ADM approved SCOPA Chapter 2 materials(5).pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: ADM approved SCOPA Chapter 2 materials
Date:	February 2, 2018 1:39:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE.docx SCOPA QAs_MOE_20180129 - DM Edits - EPE.docx

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Hi Steen –
Revised chapter 2 friendlies and QA.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _2.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   ~~The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.~~ Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   We introduced OFHP because we heard from Ontario's that electricity prices had risen too quickly and relief was needed. Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices increased because our energy system is being transformed ~~– since~~ more than $70 billion has been invested to modernize the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.[3] The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by ensuring that costs are shared more evenly over the years ahead.~~spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   The GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs. The majority of the province's electricity generators have 20-year contracts. Third party experts have confirmed that many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and

~~[1] Ministry of Energy, *2017 Long-Term Energy Plan*~~
~~[2] Ministry of Energy, *2017 Long-Term Energy Plan*~~
[3] Ministry of Energy, *2017 Long-Term Energy Plan*

will benefit future ratepayers by reducing the need to finance the development of new generating assets. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

We had asked one generation – today's generation – to unfairly shoulder the burden of a large portion of the costs of our investments in the electricity system. GA refinancing works to spread those costs over the expected lifecycle of the infrastructure that has been built, ensuring they are fairly allocated across the generations of consumers that will benefit from them.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. ~~This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

On the other hand, as part of OFHP, we decided to shift recovery for certain costs off the rate-base and onto the tax-base – costs associated with the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection.

We made that policy decision based on the recognition that these programs are for the common good and are appropriately supported by the tax base

~~.Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

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~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

Commented [AL1]: Moved up/rearranged

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

~~In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.~~

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

Commented [AL2]: Moved down with some tweaks

It is also important to note that the rate-base has a different risk profile than the tax-base, which would be reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanced the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations delivery credit.

Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

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OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

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OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

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From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

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In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that any deferred electricity system costs should be borne by the rate-base and not the tax-base.
- GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.
- ~~The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these ~~new~~ investments ha~~ved~~ grown too quickly, which is why we have moved forward with a plan that w~~ould~~ill ensure costs are shared more evenly over the years ahead.

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

~~In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.~~

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second, The province has introduced rate relief programs and expanded existing ones.~~

~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

~~OFHP~~ GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanced the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations delivery credit.

Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-

party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

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Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority

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investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

[8] Ontario Power Generation
[9] Ontario Power Generation
[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these ~~new~~ investments ha~~v~~ed grown too quickly, which is why we have moved forward with a plan that w~~ould~~ill ensure costs are shared more evenly over the years ahead.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

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~~Second. The province has introduced rate relief programs and expanded existing ones.~~

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Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanc~~ing~~ed the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~ Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

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Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat

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Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and

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preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing

customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ ADM approved SCOPA Chapter 2 materials(6).pdf

From:	Cox, Hilary (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: ADM approved SCOPA Chapter 2 materials
Date:	February 2, 2018 4:14:08 PM
Attachments:	Response Table_Example_20180122 (3) ieso ESP.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG.DOCX SCOPA QAs_MOE_20180129 - SH.DOCX

Ok, here's the version of the friendlies to edit – and below is the rationale. Let's use the comms bullets provided and see if we have to layer in the below language (as extra to what Comms has) and we should be good.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 1, 2018 11:22 AM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi there,

The Deputy has reviewed the Q&As and for the first friendly question, are you able to convey the two parts of the OFHP, the social aspect moving programs from the rate base to the tax base (e.g. OESP) as well the global adjustment portion with the rational that today's ratepayer was paying too much and costs would shift to future years to appropriately reflect the extended life of the assets.

Hoping that this narrative is off the shelf, as the Deputy recalls positioning the OFHP in this way previously.

This narrative could be replicated for the OFHP questions in both documents.

Happy to discuss if you have any questions.
Thanks,
Mike

From: Cox, Hilary (ENERGY)
Sent: January 30, 2018 4:58 PM
To: Hendy, Adam (ENERGY)
Cc: Nucciarone, Michael (ENERGY)
Subject: ADM approved SCOPA Chapter 2 materials

Hi Comms and DMO –
Attached is the consolidated ESPD ADM approved package of SCOPA Chapter 2 materials.

HC

Response Table_Example_20180122 (3) ieso ESP_1.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-

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Issue/Consideration	Strategy	Key Messages
		party experts to provide advice and ensure due diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover

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Issue/Consideration	Strategy	Key Messages
	guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG_1.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

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OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

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OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

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From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

<u>Response</u>

<u>Ontario Power Generation's Qualifications</u>

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

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Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

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The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ ADM approved SCOPA Chapter 2 materials.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: ADM approved SCOPA Chapter 2 materials
Date:	February 1, 2018 1:26:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits.docx SCOPA QAs_MOE_20180129 - DM Edits.docx

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Hi Steen –
Comms has layered in the DM's requested bullets on shifting social programs to the tax base, but the bullets (which also include bullets duplicative of what you had already written on GA refinancing) aren't really working where and how they are. How would you like to re-organize these points to make return the responses to a somewhat coherent state?

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _3.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design

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appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

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OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of

important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

   In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

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This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;

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3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;

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4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

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Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for

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> the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   Response

   Ontario Power Generation's Qualifications

   Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

   OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

   In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization

programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As

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previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

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OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

To relieve the current burden on consumers, two streams of initiatives are being undertaken.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

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Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

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[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.

Second. The province has introduced rate relief programs and expanded existing ones.

A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may

be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

DRAFT

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

DRAFT

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

DRAFT

FW_ AG report response(1).pdf

From: Lyon, Sam (ENERGY)
To: Spence, Marcia (ENERGY)
Subject: FW: AG report response
Date: October 17, 2017 11:06:36 AM
Attachments: ITIN -Oct 17-2017.docx

Name below.

Sent with BlackBerry Work (www.blackberry.com)

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Date: Tuesday, Oct 17, 2017, 11:05 AM
To: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>
Subject: FW: AG report response

From: Schlaepfer, Martin (ENERGY)
Sent: October 17, 2017 10:04 AM
To: Kwamena, Boafoa (CAB) <Boafoa.Kwamena@ontario.ca>; Farrow, Alicia (CAB) <Alicia.Farrow@ontario.ca>
Cc: Bromm, William (CAB) <William.Bromm2@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>
Subject: Re: AG report response

DM Imbrogno, DM Angus, ADM Hume, Kim Marshall (IESO) , Ken Hartwick (OPG) and Matt Betik (KPMG).

Attached is a draft itinerary with these details.

From: Kwamena, Boafoa (CAB)
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To: Schlaepfer, Martin (ENERGY); Farrow, Alicia (CAB)
Cc: Bromm, William (CAB); McLean, David (MOF); MacIntyre, Kyle (TBS)
Subject: RE: AG report response

Thank you. Who is on the technical briefing panel? Thanks

Boafoa Kwamena
Executive Assistant and Strategic Policy Advisor
Office of the Secretary of the Cabinet
Cabinet Office
416-325-4400
Boafoa.kwamena2@ontario.ca

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Hi Boafoa,

Attached are two additional products for the AG release: Fact sheet and QA on Deloitte.

Thanks,
Martin

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Contacts:

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neil.konkel@bespokeav.ca

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Colin Nekolaichuk (on-site)
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Colin.Nekolaichuk@ontario.ca

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AG Report: 12:00 pm (holding room to watch the livestream)
Standing Committee on Estimates PM: 3:45 p.m.

Locations:
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AG Report Holding room: TBC

Attire: Business Attire

Audience: Queen's Park media

Remarks: **AG Report:** Statement, 2-3 minutes

Room Setup: **AG Report:** News conference set-up with mics, classroom style seating, media riser, pipe and drape, head/panel table, TV monitor and Canada/Ontario flags

Tech Briefing Panelists:

Serge Imbrogno, Deputy Minister, Energy
Helen Angus, Deputy Minister, TBS/Secretary of the Management Board of Cabinet & Secretary of the Treasury Board
Steen Hume, Assistant Deputy Minster, Energy Supply Policy Division
Ken Hartwick, SVP, Finance Strategy & Risk. CFO, Ontario Power Generation
Kimberly Marshall, Vice-President, Corporate Services and Chief Financial Officer, IESO
Matt Betik, KPMG

Moderator:

Scott Blodgett, Senior Media Relations Advisor, Ministry of Finance

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12:45 p.m. Technical briefing panelists arrive
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1:00 p.m. Technical briefing begins, **Scott Blodgett,** Senior Media Relations Advisor, Ministry of Finance introduces the panelists

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FW_ AG report response.pdf

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Attachments:	ITIN -Oct 17-2017.docx

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To: Kwamena, Boafoa (CAB) <Boafoa.Kwamena@ontario.ca>; Farrow, Alicia (CAB) <Alicia.Farrow@ontario.ca>
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FW_ Auditor General 2017 Annual Report - SCOPA ...(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Subject:	FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update
Date:	February 23, 2018 6:11:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update.docx

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From: Hume, Steen (ENERGY)
Sent: February 23, 2018 5:34 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi Martin: attached is the re-framed DM's Q&A/ Key Messages package for SCOPA Chapter 2. As discussed, we've tried to re-package the contact in a format that we typically use at ENERGY rather than the TBS format.

We've also not included Q&As related to IESO and accounting. The Q&A content in the attached is more aligned with the topics highlighted in the Minister of Energy's "swim lane" (e.g., OFHP policy, Records Disclosure / Process, Affordability Fund / Arm's Length Trusts, Electricity Bill Re-Design).

I proposed that we don't update the TB package. This is just for our DM's use.

Hope this helps. Steen

Auditor General 2017 Annual Report - SCOPA Ch_10.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan

[8] Ontario Financing Authority

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(OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

[9] Ontario Power Generation

[10] Ontario Power Generation

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Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn’t the problem the amount on people’s bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That’s why the government developed Ontario’s Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and

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consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ Auditor General 2017 Annual Report - SCOPA ...(2).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update
Date:	February 26, 2018 1:48:19 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26.docx

Hi Guys –
See attached and below for additional DM questions for Chapter 2 SCOPA. Steen is hoping we can turn by EOD.

HC

From: Hume, Steen (ENERGY)
Sent: February 26, 2018 1:40 PM
To: Cox, Hilary (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi. Spoke to the DM, he generally good with the attached package. But he's asked for three additions. I've provided comment boxes on what he's looking for.

Let's try and turn this around for today.

Thanks,

Auditor General 2017 Annual Report - SCOPA Ch_11.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

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The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

Q. Why didn't you use the OEFC to do the borrowing?

Q. The IESO has changed how it accounts for it market books. Did the government influence this decision?

Commented [HS(1]: Can we also include a paragraph that talks about the "spread" assumptions that the FAO used and what we used in initial modeling

Commented [HS(2]: Can we add this in. DM remembers an old Q&A package that we did on this topic.

The Q&A talked about OEFC was set-up to deal with the stranded debt.

Commented [HS(3]: In the TBS's Q&A package I recall there being Q&A that explains why IESO chose to change its accounting.

Include that content.

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

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OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

[8] Ontario Financing Authority

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In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

[9] Ontario Power Generation
[10] Ontario Power Generation

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Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn’t the problem the amount on people’s bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That’s why the government developed Ontario’s Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and

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consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ Auditor General 2017 Annual Report - SCOPA ...(3).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Bergman, Mark (ENERGY); Ho, Larissa (ENERGY)
Subject:	FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update
Date:	February 26, 2018 2:39:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26.docx

Ava – please review for EOD.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 26, 2018 1:48 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi Guys –
See attached and below for additional DM questions for Chapter 2 SCOPA. Steen is hoping we can turn by EOD.

HC

From: Hume, Steen (ENERGY)
Sent: February 26, 2018 1:40 PM
To: Cox, Hilary (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi. Spoke to the DM, he generally good with the attached package. But he's asked for three additions. I've provided comment boxes on what he's looking for.

Let's try and turn this around for today.

Thanks,

Auditor General 2017 Annual Report - SCOPA Ch_12.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

Q. Why didn't you use the OEFC to do the borrowing?

Q. The IESO has changed how it accounts for it market books. Did the government influence this decision?

Commented [HS(1]: Can we also include a paragraph that talks about the "spread" assumptions that the FAO used and what we used in initial modeling

Commented [HS(2]: Can we add this in. DM remembers an old Q&A package that we did on this topic.

The Q&A talked about OEFC was set-up to deal with the stranded debt.

Commented [HS(3]: In the TBS's Q&A package I recall there being Q&A that explains why IESO chose to change its accounting.

Include that content.

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

[8] Ontario Financing Authority

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In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
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- Treasury Board Secretariat;
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Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

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OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn’t the problem the amount on people’s bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That’s why the government developed Ontario’s Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and

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consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ Auditor General 2017 Annual Report - SCOPA ...(4).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Lightbody, Ava (ENERGY)
Subject:	FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE
Date:	February 26, 2018 5:53:01 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE.docx

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Thanks guys – went up.

From: Hume, Steen (ENERGY)
Sent: February 26, 2018 5:53 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Cox, Hilary (ENERGY); Whytock, John (ENERGY); Nucciarone, Michael (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE

Hi Martin: attached is an updated SCOPA Chapter 2 – Q&A that includes the additional information that the DM was looking for. Need content is highlighted in yellow.

Hope this helps, Steen

Auditor General 2017 Annual Report - SCOPA Ch_13.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

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Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ Auditor General 2017 Annual Report - SCOPA ...(5).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Bergman, Mark (ENERGY); Ho, Larissa (ENERGY)
Subject:	FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final
Date:	February 28, 2018 3:16:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

FYI

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 3:04 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final

Hi Guys -
Please save the attached as our final. I'll have it filed with ADMO as well.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Wednesday, February 28, 2018 3:02 PM
To: Cox, Hilary (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final

Hi. For our files, please have staff save the attached as our final Q&A package with respect to SCOPA Chapter 2.

Thank you,

Auditor General 2017 Annual Report - SCOPA Ch_14.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

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All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ Auditor General 2017 Annual Report - SCOPA ....pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version
Date:	February 23, 2018 2:02:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version.docx

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Ava – please review. I am checking on the deadline.

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 23, 2018 1:31 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version

Hi Guys -
Please review/edit as required attached chapter 2 QAs.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

Auditor General 2017 Annual Report - SCOPA Ch_15.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable energy system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for the typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

The Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FMS) responsible for the financing plans and the Fair Hydro Trust (i.e., entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report. The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

[8] Ontario Financing Authority
[9] Ontario Power Generation

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In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

[10] Ontario Power Generation

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Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with Ontario Power Generation's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meet accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

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At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Commented [HS(1]: Is this previously approved language?

Similarly, the 8 per cent rebate, introduced in January 2017, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

Commented [HS(2]: Do we want to use the "equivalent" language?

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

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Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

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Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ By Friday afternoon - SCOPA_QA_Friendly_ENERGY(1).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY
Date:	January 24, 2018 10:54:00 AM
Attachments:	SCOPA_QA_Friendly_ENERGY.docx Consolidated Estimates Friendlies.docx

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Ava – please draft the response to our attached friendly. Estimates QAs attached as a starting point.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 24, 2018 10:38 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY

Hi Guys –
We're going to move ahead on prep for Public Accounts on Chapter 2 of the AG report (I'll also be sending out the prelim pieces for Chapter 3 prep a little later). We've been asked to prep the attached 3 friendly Qs. IESO and OPG will tackle questions 2 and 3, but we're on the hook for a lengthy (DM needs 20 mins of content) response to Q1.

Looking to have this back by Friday afternoon.

HC

SCOPA_QA_Friendly_ENERGY.pdf

Ministry of Energy – Proposed Friendly Questions:

1. To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?

   And, why is the Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

DRAFT

Consolidated Estimates Friendlies.pdf

Consolidated Estimates Friendlies

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TOPIC 1: FAO $4B number

Speaking: Deputy Minister, Minister, Ken Hartwick (OPG)

1) Q. Minister, when we were last here, the Deputy Minister was trying to provide some insight into the $4 billion dollar interest cost estimate from the Financial Accountability Officer's report on Ontario's Fair Hydro Plan.

I was hoping the Deputy Minister could provide the answer that he was attempting to provide last Wednesday and also explain why Ontario Power Generation (OPG) is best qualified to manage the debt obligations?

First, I would like to point out that the $4 billion figure was an estimate made by the Financial Accountability Office (FAO) based on initial Ministry of Energy forecasts of total debt and interest levels for Ontario's Fair Hydro Plan from March 2017.

Subsequent analysis conducted by the Ministry of Energy found that the debt and interest levels are now expected to be substantially lower.

Initial estimates of peak debt decreased between March 1, 2017 and August 31, 2017 from approximately $28 billion to $20 billion and the estimates of total interest cost decreased from approximately $25 billion to $18 billion.

These updated estimates reflect refinements of a number of variables, including the cost of borrowing and electricity system cost forecasts.

I would also note that a number of variables, including interest rates, electricity demand and electricity costs, will vary over the 30-year life of the program and cost estimates will continue to be revised to reflect these changing conditions.

The FAO report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties ... Fiscal impact may differ significantly from the FAO's estimates."

While the total cost of the program has already been revised downwards substantially to reflect revised inputs, I would like to take a moment to discuss the methodology behind the FAO's analysis. The FAO simply took an estimated cost of borrowing for the Ontario Financing Authority (OFA) and Ontario Power Generation (OPG) and applied to the difference to debt estimates based on Ministry of Energy data from March.

This analysis ignores the policy intent of Ontario's Fair Hydro Plan, which to ensure that the same group of ratepayers receive the benefit and pay the costs associated with the plan.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (known as the Fair Hydro Plan Trust) that will manage the debt obligations.

OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

I would now like to invite Ken Hartwick from OPG to elaborate on the structure and speak to OPG's qualifications and its plan to keep costs down.

[Deputy passes of to Ken Hartwick to elaborate on the structure and speak to OPG's qualifications and plan to keep costs down]

Let me make a few remarks about OPG's qualifications as the financing manager of the Fair Hydro Plan:

OPG currently manages an $18 billion nuclear fund and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing the Fair Hydro initiative. For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

2) Q. What is OPG's Role?

OPG will be acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, basically arranging for a variety of debt financing for the deferred costs.

We will be setting up a financing entity in the form of a "Trust", which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills and will be funded through the Trust.

OPG will arrange for third party debt, supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be lent to the Trust, also at equivalent market rates.

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB), the Independent Electricity System Operate (IESO) and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

3) Q. What is the difference between the Province Borrowing Program and Fair Hydro Trust (FHT) borrowing program?

A simple comparison between direct borrowing by the Province and OPG's role in Ontario's Fair Hydro Plan is a bit of an "apples to oranges" comparison.

A conventional Provincial borrowing program would raise funds based on the credit worthiness of the Province and the Provincial Guarantee.

Under Ontario's Fair Hydro Plan, lenders will provide funds based on the underlying value of the specific asset. This value is created by the legislated framework rather than through a Provincial Guarantee.

Ontario's Fair Hydro Plan will create a series of deferred assets that will have certain cashflow payment streams going forward. The overall objective of Ontario Fair Hydro Plan is to spread the costs and benefits out. The financing has to be actually linked to the overall payment scheme going forward and aligned with the benefits.

Consequently, the financing actually lends itself toward a "securitization" structure with cash flows matched to specific benefits rather than as a conventional borrowing program.

4) Q. Why is OPG best placed to minimize the cost of the overall program?

The Ontario Power Generation (OPG) has the expertise and experience to manage this securitization program. The Ontario Financing Authority (OFA), does not, as far as I am aware, have direct experience in setting up or managing a securitization vehicle or program.

This combination and diversity of skills position OPG to ensure an effective funding arrangement is put in place that clearly defines the electricity ratepayer in context of the person receiving the initial benefit of the legislation.

As we work through the financing program for Ontario's Fair Hydro Plan, OPG is focused on ensuring that financing is optimized to minimize costs to ratepayers.

In particular, attention has been given to achieving a strong credit rating for the Trust, again, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Finally, OPG's Treasury function is well positioned given its experience in developing structured financing programs and in managing multiple existing debt platforms.

TOPIC 2: OPG and Fair Hydro Plan accounting

Speaking: Ken Hartwick (OPG)

1. OPG and Fair Hydro Plan

Question:

You have a lot of experience working in the electricity sector in other jurisdictions in North America. Could you tell us about whether you've seen this kind of arrangement elsewhere before – in which costs are deferred over a longer period of time than originally planned?

- **Programs similar in concept have been set up in the electricity sector, especially in the US. Several of these programs defer charges of one billion dollars or more.**
- **The most recent transactions that are similarly several billion in size occurred at Duke Energy and Long Island Power**
- **Florida and other states (approximately 18 in total) have passed similar securitization legislation to authorize recoveries by utilities of specified costs, such as hurricane recovery costs, environmental control costs, or costs associated with deregulation of the electricity market**
- **All of these take costs that have been incurred and spread their recovery over several years and decades through financing arrangements similar to the FHP.**

2. OPG and Fair Hydro Plan

Question:

Could you please tell us about what OPG's role is in the administration and ongoing operation of the Fair Hydro Plan?

- **OPG will be acting as the financing manager for the Fair Hydro legislation, basically arranging for a variety of debt financing.**
- **We will be setting up a financing entity (Trust), which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.**
- **The financing requirements are determined by the legislation and the reduction consumers have on their bills and will be funded through the Trust.**
- **OPG will arrange for the third party debt, and supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be leant to the Trust, also at equivalent market rates.**

3. OPG and Fair Hydro Plan

Question:

But is it unusual for an organization like yours to take on this responsibility?

Could you please explain why OPG might be the appropriate entity to play this kind of role—do you think you are adding value to the process by acting as the Financial Services Manager?

- **OPG is uniquely positioned as we understand the supply / demand characteristics of the market, we regularly interact with the OEB, IESO and we have experience in Treasury operations in the marketplace including relationships with the credit rating agencies.**
- **OPG has recently successfully project financed hydroelectric investments from public markets and has an ongoing settlement relationship with the IESO.**

- **A simple comparison between direct borrowing by the Province and OPG's role in the Fair Hydro Plan is a bit of an apples to oranges comparison.**
- **A conventional Provincial borrowing program would raise funds based on the credit worthiness of the Province and the Provincial Guarantee.**
- **Under the Fair Hydro Plan, lenders will provide funds based on the underlying value of the specific asset. This value is created by the legislated framework rather than through a Provincial Guarantee.**
- **The Fair Hydro Plan will create a series of deferred assets that will have certain cash-flow payment streams going forward. The overall objective of the Plan is to spread the costs out. The financing has to be actually linked to the overall payment scheme going forward, and aligned with the benefits. Consequently, the financing actually lends itself toward a securitization structure with cash flows matched to specific benefits rather than as a conventional borrowing program**
- **OPG has the expertise and experience to manage a securitization program. The Ontario Financing Authority, does not, as far as I am aware, have direct experience in setting up or managing a securitization vehicle or program.**
- **This combination and diversity of skills position OPG to ensure an effective funding arrangement is put in place that clearly defines the electricity rate payer in context of the person receiving the initial benefit of the legislation.**

4. OPG Accounting and Transparency

Question:

Do you think the structure that's been created to administer and operate the Fair Hydro Plan—and that OPG plays a role in—is a structure that will provide for transparency as it related to the borrowing and the accounting?

- **The structure that has been set up in fact ensures a high level of transparency.**
- **As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents**

- **Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.**
- **All of this will be reported in OPG's financial reports on a quarterly and annual basis. OPG's financial reports are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight.**

5. OPG Accounting and External Experts

Question:

Could you explain what sort of external expertise you enlisted, and please explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

- **There are three specific areas that we supplemented our team with external resources.**
  - **First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.**
  - **The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.**
  - **The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.**

  As has been mentioned OPG has strong capabilities across these areas but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

6. OPG and the Fair Hydro Trust

Question:

Can you describe what OPG has been asked to do to minimize the customer impact of implementing the FHP?

- **OPG will act as the Financial Services Manager for the FHP Trust.**
- **There are 2 primary goals of the Financial Services Manager:**
  - **First of these, is to ensure that the activities envisioned under the FHP legislation, as they pertain to the Trust, are consistent with the electricity ratepayer both receiving the bill reduction and the corresponding collection of the costs related to the activities that have been invested in.**
  - **The second is to work on optimizing the FHP Trust financing to ensure that costs to ratepayers are minimized and reflect the benefit the ratepayer initially received.**
- **Speaking to the second point we have been working on a financing program that includes several elements including a securitization program, provincial equity support and OPG funding. These elements are being optimized in a manner that will achieve an effective financing program for the benefit of consumers.**
- **As we have worked through the program attention has been given to achieve a strong credit rating for the Trust again with the objective of mitigating the impact on the ratepayer through effective market pricing by the Trust of the funds being borrowed.**
- **It is also critical to my first point that the financing program have a high level of transparency so ratepayers can understand the nature of the program and the associated costs. The Trust will file all necessary financial reports that will ensure this transparency.**

TOPIC 3: IESO and Accounting

Speaking: Kim Marshal (IESO)

Q1. In the first session we asked if you could you talk about how the IESO's accounting policy compares to its peers. You said you were looking for trends, and you did some work in terms of how others are defining their rate-regulated assets. Can you elaborate further on this? Did you discuss this method with the other companies who are using it to determine what the overall advantages are?

- Of course. Thanks for the opportunity to revisit this question.

- When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.
- Including the IESO, **there are 9 independent system operators in North America**; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.
- We had discussions with these organizations about their operations and accounting practices.
- We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.
- From this research, we found that **7 of the other 8 ISOs recognize the balances of the market participants.** They are:
    1. **ISO New England**
    2. **NYISO**, in New York
    3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi, and Louisiana.
    4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.
    5. **CAISO**, in California
    6. **ERCOT**, in Texas
    7. **Southwest Power Pool**, in central US.
- When we talked to our counterparts across North America about regulatory assets, we found out that **6 of the other 8 entities recognize the economic effects of rate regulation**, they are:
    1. **AESO**, in Alberta
    2. ISO New England
    3. NYISO
    4. MISO
    5. PJM
    6. ERCOT
- I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

- When we talked to CAISO, we found out that **their accounting framework actually allows for the recognition of regulatory assets and liabilities**, but that it had concluded the need to recognize regulatory assets was no longer necessary.
- When we talked to Southwest Power Pool, we learned that **they simply do not have any variance accounts that would qualify as regulatory assets or liabilities**.

- So, when we looked at making the accounting change we considered that:
    1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
    2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
    3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
    4. That this change would **bring the IESO in line with its peers** across North America; and
    5. Finally, that this accounting change would in **no way affect the IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Q2. In the first session you stated that "Public Sector Accounting Standards (PSAS) are silent in terms of rate-regulated accounting," which is ultimately what led the IESO in conjunction with KPMG, to look beyond PSAS to US Generally Accepted Accounting Principles (GAAP) in terms rate regulated activities. How did the IESO come to the conclusion that it was acceptable to use GAAP instead of PSAS for rate regulated activities? Is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

- The IESO follows Public Sector Accounting Standards (PSAS) for its accounting.
- PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities.
- In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard.

- If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

- In this case, the IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing the IESO to recognize a regulatory asset.

- This decision was supported by an accounting opinion from our external auditors at KPMG and as we've just discussed, aligns the IESO with six of the eight other independent system operators in North America.

- In fact, more than one of the big-four accounting firms agree with our decision on this matter.

Q3. Obviously determining a structure like this requires a lot of comprehensive insight and analysis to ensure that the best interests of Ontario ratepayers are being protected. Who was involved in the decision making process? What experts and outside companies were involved, and is the IESO certain that they left no stone unturned in ensuring the proper accounting process and standards were chosen?

- Definitely. It's a decision we made after careful consideration and extensive consultation with external experts.

- The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

- Prompted by conversation with government about the Fair Hydro Plan and recognizing the need to consider impacts of future government policy, the IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its audit partner KPMG, the IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements.
- By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.
- We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.
- As we just covered, this change to recognize regulated assets and market accounts brings the IESO in line with accounting practices followed by other independent system operators in North America.
- I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of the IESO, reported a subset of the market accounts on its financial statements – so this isn't new.
- To confirm our view that the change was appropriate, the IESO engaged independent audit firm KPMG for accounting research on the matter.
- KPMG conducted their own research into the issue.
- KPMG subsequently issued a white paper on the accounting change, supporting the IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.
- The accounting change was reviewed by the IESO's Board of Directors, and approved.
- As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.
- Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, the IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

- Now, you asked a question about ensuring the best interests of Ontario rate payers were protected and this is an important point that I want to take the time to address, specifically, because it was a consideration of ours.

- **These changes in no way affect the IESO's costs, or have any financial impact on electricity ratepayers.**
- Ultimately, the IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion **last year**, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

Q4. You say the IESO received an "unqualified opinion" from its auditor on your 2016 financial statements. What does that mean?

- It is the auditor's responsibility to express an opinion on the financial statements based on their audit.
- In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.
- Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.
- Here are some of the things an audit looks into:
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- **On our 2016 financial statements, KPMG stated: ”We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion”**
- This was followed by a statement of their **unqualified opinion:**
    - **In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.**
- This is taken directly from our 2016 financial statements, which are publically available.
- So the “unqualified opinion” is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent the IESO’s financial position at year-end.

Q5. So you received a clean audit on the 2016 financial statements which included regulatory accounting. Why didn’t the IESO include these transactions on financial statements prior to 2016?

- The IESO regularly reviews its accounting policies.
- Prompted by a discussion with government about the Fair Hydro Plan, the IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its auditor, the IESO determined that a choice was required as to whether or not to record Market Accounts and regulatory assets and liabilities in the IESO financial statements.
- By analyzing the nature of the accounts, IESO’s economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- In order to confirm our decision, we asked KPMG to conduct some research on our behalf into the appropriateness of adopting regulated accounting.
- Their research agreed with our view that the recognition of regulatory assets and liabilities better reflects the economic substance of IESO’s operations and enhances the relevance, transparency and accountability of its financial reporting.
- It also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

- Finally, KPMG found that the accounting change would bring the IESO in line with the majority of its ISO peers across North America.

- When we considered the results of KPMG's research, along with the fact that the change would have no impact on **the IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.**

TOPIC 4: Ministry and OFHP Support Programs

Speaking: ADMs (TBD),

Funding of Support Programs

Preamble: As part of the changes announced in the Fair Hydro Plan, your Ministry announced some changes to several support programs. You also communicated that these programs would be funded differently.

Q1: Could you please explain how the change of funding social programs works, and how it will affect people's bills?

Response

In the past, the costs of two social programs – Rural or Remote Rate Protection and the Ontario Electricity Support Program – were funded by ratepayers. The average electricity customer in Ontario contributed approximately $2.50/month to fund these important programs.

However, in recognition of the broader social benefits of these programs, as part of Ontario's Fair Hydro Plan we have transitioned the vast majority of these costs to taxpayers – leading to real, month over month savings in the Regulatory charge of consumer's electricity bills

These programs have been subsequently expanded, to provide greater benefits to more customers, at no additional cost to the ratepayer. The new First Nations Delivery Credit is also funded through taxpayers and will not be charged to consumers.

The social programs are targeted to some of the more vulnerable consumers in Ontario – including those with low-income and in high-cost rural areas - to ensure that our electricity system recovers costs in a fair and equitable manner.

Rural or Remote Ratepayer Protection (RRRP)

Preamble: You also announced additional relief for those consumers who live in the rural and remote parts of our province. These consumers often struggle with higher delivery charges than those who live closer to our sources of generation, or live in areas in which it's harder to maintain the poles and wires.

Q2: I know that the Rural or Remote Rate Protection (RPPP) program previously helped these customers, but could you explain what actions were taken in the Fair Hydro Plan to broaden this relief?

Response

I know that the Rural or Remote Rate Protection (RPPP) program previously helped these customers, but could you explain what actions were taken in the Fair Hydro Plan to broaden this relief?

As part of the Fair Hydro Plan, the Government has introduced distribution rate protection that provides distribution rate relief for those residential customers that are served by LDCs with some of the highest distribution rates. Those LDCs are:

- Hydro One (R1 medium density & R2 low density)
- Algoma Power
- Atikokan Hydro
- Chapleau Public Utilities
- InnPower
- Lakeland Power (Parry Sound area only)
- Northern Ontario Wires
- Sioux Lookout Hydro

Eligible customers of those LDCs will not pay more for base distribution rates than $36.43 – the maximum amount set by the OEB for 2017.

The distribution rate relief provided through RRRP and Distribution Rate Protection (DRP) will offset potential rate increases, if any, approved by the OEB, or augment any rate decreases, if any, implemented by the OEB for these eligible customers.

Support Programs for Low-Income Ontarians

Preamble: Additionally, the Minister sometimes mentions that relief for those who are low-income or live in the rural parts of our province may be as high as 40-50%.

Q3: Could you please expand on the low-income support? What programs for low-income consumers were introduced or amended in the Fair Hydro Plan, and how will this change affect the constituents in my riding?

Response

The Ontario Electricity Support Program, or the OESP, provides monthly on-bill credits for eligible low-income customers all across Ontario. The Fair Hydro Plan included enhancements to the OESP that benefit ratepayers in two important ways:

- First, the OESP program costs will no longer be funded by the rate base. It will now be a government-funded program, providing savings for ratepayers.
- Second, the program was enhanced to provide more benefits to a greater number of Ontarians.

Starting May 1, 2017, the OEB increased OESP support for low-income consumers by 50 per cent. New eligibility categories were also introduced, enabling certain household sizes in higher income brackets to become eligible for the OESP. Monthly credits now range from $35 to $75. This means that:

- a single customer earning under $28,000 can now receive $45 per month, up from $30;
- a family of four with a combined earning under $48,000, which was previously not eligible for the program, can now receive $40 per month; and
- seven or more people living together who earn a total of $39,000 or less can receive $75 per month, up from $50.

If an applicant uses electricity as a primary source of heating, uses certain energy-intensive medical devices, or identifies as an Indigenous person, they would be eligible for the enhanced credit. That credit ranges from $52 to $113 per month.

Ontario is also working to improve co-ordination across provincial programs that provide support to low-income Ontarians. This includes ensuring that anyone deemed financially eligible for Ontario Works or the Ontario Disability Support Program will automatically be eligible for the OESP.

Support for Businesses

Preamble: When the Fair Hydro Plan was introduced, the Ministry also announced that up to as many as 500,000 small businesses and farms would benefit from the 25 per cent on average reduction. You also expanded the Industrial Conservation Initiative (ICI) for larger industrial businesses.

Q4: Could you please explain what the Industrial Conservation Initiative program does, have it was expanded, and what other initiatives exist that businesses can benefit from?

Response

The government of Ontario has a number of programs in place to help businesses and industry manage their electricity costs.

In particular, the Industrial Conservation Initiative (ICI) is an important program that provides participants with the opportunity to lower their electricity costs by reducing electricity consumption during peak hours of the day.

The Industrial Conservation Initiative (ICI) works by allowing participants to pay Global Adjustment (GA) based on their contribution to the top five system peak demand hours of the year. This provides an incentive for ICI participants to reduce consumption during peak hours, benefitting them financially and benefitting the electricity system by reducing peak demand and deferring the need to build new generation.

In 2016, ICI reduced peak demand by about 1,300 Mega Watts.

As part of Ontario's Fair Hydro Plan announced in March 2017, the government has expanded ICI to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW.

This change announced in Ontario's Fair Hydro Plan builds on a previous expansion that took effect in January 1, 2017. To give more businesses the opportunity to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.

- Prior to lowering the ICI eligibility threshold and removing sector restrictions, only electricity consumers with peak demand between 3 and 5 MW could participate in ICI.

With the expansion of ICI to 1 MW and the removal of sector restrictions, an estimated 1,300 consumers became eligible for the program. As a result of the change to ICI announced in Ontario's Fair Hydro Plan, the number of eligible consumers for the program is expected to increase further.

The government is also assisting consumers who are considering participation in Industrial Conservation Initiative (ICI) through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

In addition to the Industrial Conservation Initiative (ICI), Ontario's Fair Hydro Plan includes other measures to benefit businesses and mid- to large-sized consumers.

- All consumers are benefitting from the shifting of cost recovery for the Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) from electricity bills to provincial revenues.

- Small businesses and farms that are eligible for the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) are also eligible to receive the benefits from refinancing of a portion of the Global Adjustment (GA), which has resulted in significant and immediate rate relief.

In addition to the measures note, Ontario also has a number of programs already in place to help industries, businesses, commercial operations and institutions lower their electricity costs and remain competitive.

These programs include:

- The Industrial Accelerator Program (IAP) – which assists eligible transmission-connected companies and their distribution-connected sites to fast-track the capital investment needed for major energy conservation projects;

- The Save on Energy for Business programs – which provide financial incentives that help distribution-connected businesses to reduce their electricity use and manage costs though energy audits, retrofits and process and system improvements; and

- The Northern Industrial Electricity Rate (NIER) Program – which provides rate rebates to Northern energy-intensive industries facing competitiveness pressures due to higher energy costs. The program also assists industrial consumers in developing and implementing energy management plans to manage their usage and reduce costs.

Finally, to further help ease the pressure on larger electricity consumers, the government is removing the Debt Retirement Charge (DRC) for all non-residential consumers on April 1, 2018 – nine months earlier than previously estimated.

Going forward the government will continue to engage with businesses and industry to explore innovative ways to reduce costs for these consumers

Effect on Ratepayer's Bills

Preamble: I think it's great that we're helping out the most vulnerable groups, such as low-income, rural, and First Nations customers, but I'm worried that this will end up costing more on my hydro bill.

Q5: Will the increases of these programs affect the electricity bills of customers who don't receive support from these programs?

Response

No – the full expansion of the social programs, as well as the vast majority of existing program costs, have been transitioned to the taxbase, leading to real, month-over-month savings in the Regulatory line of consumer invoices.

TOPIC 5: Additional Ministry of Energy questions

Speaking: ADM (TBD), Deputy Minister, Minister

Electricity costs

Preamble: The people of Ontario are currently able to benefit from a clean and reliable supply of electricity. But many of us remember that before 2003, we struggled with blackouts and brownouts, and an electricity system that was unreliable and in need of repairs.

As you've mentioned before, our government had to make significant investments to modernize and upgrade Ontario's electricity system. These were essential investments, including more than $50 billion in electricity generation and grid infrastructure across the province. We've also been able to close Ontario's coal plants, and in doing so, were the first jurisdiction in North America to go coal-free.

But this came at a cost—one that the current generation was bearing all by themselves.

Q6: Could you please explain what measures were taken by your Ministry to reduce this burden and lower electricity costs for consumers and businesses?

Minister Response

Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system.

The government has heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we are moving forward with a plan that would ensure costs are shared more evenly over the years ahead.

Ontario's Fair Hydro Plan provides new measures to lower electricity bills by 25 per cent on average for residential consumers and hold increases to the rate of inflation for the next four years, as well as initiatives to reduce costs for businesses. The plan includes the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on all electricity bills. This rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA will provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

Under GA refinancing, initial analysis indicates that borrowing would occur for about 10 years. Initial analysis indicates that it is currently anticipated that loans will begin to be paid back in the mid-to-late 2020s. The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible. This is a significant change that represents a fair solution to an issue that has unfairly burdened current electricity ratepayers. This does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for social programs off of hydro bills.

Electricity consumers that are eligible for the 8 per cent rebate are also eligible for GA refinancing, including all residential consumers, farms, most small businesses, long-term care homes and condominiums.

We are helping vulnerable electricity consumers by enhancing electricity support programs. For those most in need, the Save on Energy Home Assistance Program provides home energy efficiency upgrades at no cost to low-income electricity customers to help reduce future electricity bills.

We recognize that there are other electricity customers who are in need but do not meet the Home Assistance Program eligibility criteria. The Affordability Fund will provide energy efficiency measures to those Ontarians who are not eligible for the Home Assistance Program, and who are otherwise unable to make energy efficiency improvements without financial assistance. Energy efficiency improvements can help customers reduce future electricity bills and avoid future disconnections.

In March 2017, the Ministry of Energy entered into an agreement with an independent Trust to administer the Affordability Fund. The Trust will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria. The Trust's Board includes representation from three electricity distributors, two social service agencies and the Ministry of Energy (one non-voting representative).

We have expanded the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW, in addition to the consumers over 1 MW who are already eligible.

In June 2016, the government directed the OEB to examine and report back to the Ministry of Energy on options for First Nations rate assistance. Working with a First Nation Advisory Committee and the Chiefs of Ontario, the OEB submitted its report on First Nations rate assistance options to the ministry, including consideration for possible options, costs, funding mechanisms, and program development issues.

As a result, Ontario's Fair Hydro Plan included the elimination of the delivery charge for on-reserve First Nation customers through the First Nations On-Reserve Delivery Credit. This initiative helps address some of the unique challenges that on-reserve First Nation customers face, and recognizes First Nations' contribution to the provincial electricity system.

The FNDC provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs). For those First Nations residential customers served by an LDC that are charged a bundled rate and do not have a delivery charge, we are providing a credit equal to the monthly service charge. The Ontario Energy Board estimates that the First Nations Delivery Credit will provide residential customers an average monthly benefit of $85 (or $1,020 per year).

In total, there are about 21,500 on-reserve First Nations residential customers served by LDCs. who automatically qualify.

We are also providing more support for Ontario customers that are in the greatest need of rate relief. The Ontario Electricity Support Program was launched in January 2016 to provide monthly, on-bill credits to low-income households. In May this year, we increased those monthly credits by 50% across the board, and broadened program eligibility so that more Ontarians can get access to the program. The Ministry of Community and Social Services is also playing a critical role by helping to ensure that those receiving social assistance are automatically eligible for the OESP.

We currently provide a distribution rate subsidy to support to roughly 350,000 rural or remote customers through the Rural or Remote Electricity Rate Protection (RRRP). Through the Fair Hydro Plan, we expanded distribution rate protection to provide distribution rate relief to residential customers of local distribution companies (LDCs) with some of the highest rates, including some of those that receive RRRP. The enhanced program will benefit about 800,000 customers in total. Specific rebate amounts will be LDC specific and dependent on customer usage.

Additionally, we moved the majority of the cost of RRRP to be funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers. This will save the average residential rate payer an additional $1.35 per month..

In addition to these changes, other assistance programs for energy costs are available through the Ontario Trillium Benefit, as well as the Low-Income Energy Assistance Program (LEAP), which provides relief for those in need of emergency assistance on their utility bills.

We are also improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator and the Ontario Energy Board.

I'll pass it over to Deputy Minister Serge Imbrogno, who will discuss Ontario's rate mitigation measures in further detail.

Deputy Minister Response

On January 1, 2017, the Government introduced the Ontario Rebate for Electricity Consumers, which reduces electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month for an average residential consumer. In addition, the RRRP for low-density rural customers was increased from $31.50 per month to $60.50 per month. This reduced these customers' monthly distribution bills by an additional $29 per month.

As part of the Fair Hydro Plan, starting July 1 ,2017, the Government also provided additional distribution rate protection to provide distribution cost relief to residential customers of those local distribution companies with some of the highest costs. Customers of those high-cost LDCs will have their monthly base distribution charge harmonized at an amount determined by the OEB that reflects the lowest monthly base distribution charge that is currently charged by this group of higher cost LDCs that have had a rate application for 2017 approved by the OEB. This amount is currently set at $36.43 per month – which means that eligible customers of those LDCs will not pay more for base distribution rates than $36.43.

First Nation leaders and Political-Territorial Organizations advocated for the review of delivery charges associated with transmission and distribution assets within the context of the potential for electricity rate relief for on-reserve customers. Acting on that, as well as the information provided by the OEB and input received during LTEP engagement sessions, the Fair Hydro Plan established the First Nations On-Reserve Delivery Credit (FNDC).

The resulting First Nations Delivery Credit, which provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs), is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

This distribution and delivery rate relief, combined with other parts of the Fair Hydro Plan, could see some customers' total electricity bills reduced by 40-50%.

I would like to build on the Minister's statements on the Ontario Electricity Support Program, or the OESP. As rates continued to rise due to much needed investments in the electricity system, we recognized the importance of providing immediate and dependable relief to those most affected. Working with the Ontario Energy Board, the province's independent energy regulator, the OESP was launched on January 1, 2016.

Since launching, we have seen considerable uptake across the province, and with the recent changes under the Fair Hydro Plan, the Ministry is working closely with all of its partners to get as many households signed up to this program as possible. This includes important advertising, communications, and marketing efforts to get the word out to people who may be eligible for the program. It also means taking steps to streamline the OESP with existing social assistance, making it easier for low-income Ontarians to access support.

Under the Fair Hydro Plan, the monthly on-bill credits for eligible households ranges from $35 to $75. If an applicant uses electricity as a primary source of heating, uses certain energy-intensive medical devices, or identifies as an Indigenous person, they would be eligible for the enhanced credit. That credit ranges from $52 to $113 per month.

Since program launch, over 350,000 applications have been received, and about 200,000 households are already receiving on-bill credits through the OESP. We are taking important steps to improve those numbers. This includes enhancements to the

program and addressing some of the barriers to apply, like making it easier for people to provide their consent so they can finish the application process. Our work with the Ministry of Community and Social Services to streamline benefits programs is another important step in this direction.

I want to add one more thing about the OESP under the Fair Hydro Plan. This program was originally paid for through rates. That charge ended on May 1 in order to shift this program to a government-funded initiative, providing more rate relief for all customers. While the charge was small, taken together with other rate relief under the Fair Hydro Plan, these changes are making a big impact on customer bills.

I'd ask Assistant Deputy Minister Steen Hume to provide further details on Ontario's Fair Hydro Plan.

ADM Response

Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system, including $35 billion in electricity generation to ensure the system is clean and reliable and $15.5 billion in transmission and distribution.

Ontario's Fair Hydro Plan is providing significant and immediate rate relief by spreading the costs of our investments in the electricity system over a longer period of time. It has done this through the refinancing of a portion of the Global Adjustment (GA).

By way of context, the GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs.
As Ontario invested in renewing its electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced. In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

The government has aligned eligibility for GA refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for 8 per cent rebate are also eligible for GA refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

All Regulated Price Plan (RPP) consumers receive GA refinancing through the Ontario Energy Board's (OEB) RPP rate setting process. Consumers not participating in RPP but who are eligible for GA refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

On May 1, 2017, new, lower RPP prices took effect, bringing the total reduction to 17 per cent. In determining the May 2017 RPP prices, the OEB made its own independent determination to partially reflect the measures that were proposed under OFHP, pending the passage of enabling legislation. As a result of the Fair Hydro Act, 2017 achieving Royal Assent on June 1st, the OEB updated RPP prices again to reflect the full benefit of GA refinancing, increasing savings from 17 to 25 per cent on average for residential consumers.

The new RPP prices will be in effect until April 30, 2018. At that time, the OEB will reset RPP prices and the GA Modifier in a way that holds increases to the rate of inflation, in accordance with the legislation.

Helping Vulnerable Consumers

Ontario's Fair Hydro Plan includes additional measures to benefit Ontarians will low incomes and those living in eligible rural or remote communities.

We recognize that there are electricity customers who are in need but do not meet the Home Assistance Program eligibility criteria. The Affordability Fund will provide energy efficiency measures to those Ontarians who are not eligible for the Home Assistance Program, and who are otherwise unable to make energy efficiency improvements without financial assistance. Energy efficiency improvements can help customers reduce future electricity bills and avoid future disconnections.

In March 2017, the Ministry of Energy entered into an agreement with an independent Trust to administer the Affordability Fund. The Trust will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria. The Trust's Board includes representation from three electricity distributors, two social service agencies and the Ministry of Energy (one non-voting representative).

To help reduce electricity bills for First Nations people living on reserves, we are eliminating the delivery charge for all on-reserve First Nations residential customers. We have also removed the monthly service charge for customers of licensed distributors that charge a bundled rate. The Ontario Energy Board estimates this will provide residential customers an average monthly benefit of $85 (or $1,020 per year)

In total, there are about 21,500 on-reserve First Nations residential customers who automatically qualify.

The Ontario Electricity Support Program (OESP) has also been expanded, which lowers electricity costs for the most vulnerable customers by providing a rebate directly on their bills. This program — which is income-tested and application-based — uses two scales: basic credits; and an enhanced credit for Indigenous people and for people who use electric heat as their primary source of energy or certain electrically intensive medical devices.

The eligibility for OESP has also been expanded so that more Ontarians can receive the credit. OESP credits also increased by 50 per cent. We are moving the OESP funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers.

We currently provide support to roughly 350,000 rural residential customers through the Rural or Remote Electricity Rate Protection Program (RRRP). We will expand this

support to provide rate relief also to customers of local distribution companies (LDCs) with some of the highest rates.

The enhanced program will benefit about 800,000 customers total. As an example, a Hydro One low density customer on electric heat consuming 2,500kWh/month will see their distribution charge reduced by about $75. Specific rebate amounts will be dependent on Ontario Energy Board rate-setting processes.

We are moving to have the RRRP funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers. We project this will cost about $500 million in the 2017–18 fiscal year.

ICI Expansion

Ontario's Fair Hydro Plan also includes measures to benefit larger consumers. We have expanded the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW, in addition to the consumers over 1 MW who are already eligible. ICI participants can reduce electricity costs by one third on average.

ICI lowers costs for eligible consumers that reduce consumption during the top five system peak hours of the year. This benefits businesses financially and benefits the system by deferring the need to build new peaking generation. ICI consumers can reduce their electricity costs by one third on average. In 2016, ICI is estimated to have reduced peak demand by about 1,300 MW.

ICI was also previously expanded, effective January 1, 2017. To give more businesses the incentive to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed. Prior to lowering the ICI eligibility threshold and removing sector restrictions, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following

sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses.

An estimated 300 consumers were already participating in the program. With the expansion of ICI to 1 MW and the removal of sector restrictions, an estimated 1,300 consumers are eligible to pay GA according to their share of total Ontario demand in the highest demand hours of the year. The number of participants is expected to be impacted by the further expansion of ICI to include smaller manufacturers and greenhouses between 500 kW and 1 MW.

The government is also assisting consumers who are considering participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Consumers of all sizes are also benefitting from the shifting of cost recovery for OESP and the majority of RRRP from electricity bills to provincial revenues, an action that is lowering regulatory charges for everyone by approximately $3/MWh.

Existing Programs

Additional programs that provide support to Ontario families in paying their bills, include:

- The Ontario Energy and Property Tax Credit saves qualifying individuals up to $1,023 per year, with a maximum of $1,165 per year for qualifying seniors.

- The Low-Income Energy Assistance Program provides emergency financial support of up to $600 for families and individuals having trouble paying their bills.

- The Northern Ontario Energy Credit helps families and individuals in Northern Ontario by providing tax credits for low- to middle-income families and individuals living in northern Ontario. The maximum annual credit for a single person is $148, and for a family (including single parents), is $227.
- The saveONenergy Home Assistance Program, which was developed to help income-eligible homeowners and tenants manage their energy use and costs

by offering detailed in-home energy assessments and installing energy-saving measures at no cost. Social and assisted housing providers also qualify for assistance in making their buildings more energy efficient.

Existing programs for businesses include:

- Industrial Electricity Incentive (IEI), which offers reduced electricity rates for companies starting or expanding operations in Ontario;
- Northern Industrial Electricity Rate Program (NIERP), which provides a rebate of $20/MWh to northern industrial consumers;
- Industrial Accelerator Program (IAP), which assists eligible transmission-connected customers to fast-track capital investment of up to $10 million for major energy-efficiency projects, equipment retrofits, process changes and new construction;
- The SaveONenergy for Business Program, which offers financial incentives for audits, retrofits and process and systems improvements to eligible distribution connected commercial and industrial customers;
- Demand Response, through which consumers can receive payment in exchange for the commitment to reduce consumption when called upon.

Ontario's Fair Hydro Plan is lowering electricity bills for residential consumers and as many as half a million small businesses and farms are also benefitting.

Efficiences in the Electricity Sector

Preamble: In the 2016 Mandate letter that was issued to you by the Premier, one of the key priorities was to drive efficiencies and maximize return on investment from the electricity sector. As you well know, finding these efficiencies would help drive the cost down for ratepayers, and I know our government is always looking for ways to help minimize price impacts on Ontario families and businesses.

In March, you announced the Fair Hydro Plan, which lowered bills by 25 per cent on average for all residential consumers and as many as 500,000 small businesses and farms. As part of the Fair Hydro Plan, you also recommitted to finding more efficiencies in the energy sector. Your Ministry stated that "Ontario's commitment to lowering energy costs for ratepayers would include working with the province's agencies to identify opportunities to drive efficiency and productivity improvements."

Q7: Could you please provide more detail on how the Government is moving forward with driving efficiencies in the electricity sector?

Minister response

The government has been working hard to reduce electricity ratepayer costs and will continue to look for efficiencies in the system wherever possible without compromising the reliability of our system.

We have already taken several steps to mitigate system costs, including:

- Renegotiating the Green Energy Investment Agreement (GEIA) in 2013, to reduce contract costs by $3.7 billion.
- Reducing Feed-in Tariff (FIT) prices through annual price reviews, saving ratepayers at least $1.9 billion.
- Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
- Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, resulting in up to $3.8 billion in savings, relative to the 2013 LTEP forecast.

- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements - resulting in savings of up to $129 million.

- Deferring the construction of two new nuclear reactors at Darlington. This was in response to the supply and demand expectations of the 2013 LTEP, avoiding an estimated $15 billion in new construction costs.

- Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020, instead of 2016, thus helping to achieve $1.7 billion in savings relative to the 2013 LTEP forecast and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers as much as $600 million.

The Province's 2017 Long-Term Energy Plan will focus on continuing to take additional costs out of the system, and address affordability beyond the short and medium term. We have a robust energy supply and are in a good position to improve efficiency, increase transparency, and enhance opportunities for innovation and competition to reduce system costs. That is why Ontario's Fair Hydro Plan includes improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, the IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The project is expected to save up to $5.2 billion over a 10-year period, and forms a key component of Ontario's plan to ensure the affordability of electricity.

DM response

The Government's agency that is responsible for regulating local electricity distribution utilities (LDCs) has a mandate to regulate the electricity distribution and transmission

sector in the public interest, ensuring the financial viability of the sector while promoting reliable service to customers at just and reasonable rates.

Since 2012, the OEB has taken action – through its Renewed Regulatory Framework for Electricity – to more closely link rate regulation with performance measures and outcomes. This includes rolling out LDC Scorecards and revising rate setting processes.

The LTEP will direct the Ontario Energy Board (OEB) to continue to enhance its efforts to improve the performance of local electricity distribution companies (LDCs) and transmitters. The OEB will make utilities more accountable to their consumers, promote efficiencies and cost reductions, encourage partnerships, and ensure regulatory processes are cost-effective and streamlined to accommodate changing utility business models.

ADM response

The OEB has tools available to it to enhance its performance-based regulatory processes. Such enhancements may incentivize LDCs to realize additional efficiencies. Potential enhancements may include:

- Increasing productivity and stretch factors to make LDCs realize more year-over-year productivity gains;
- Financial penalties for LDCs who do not meet performance expectations;
- Incentives to encourage LDC collaboration and partnerships to realize cost savings;

Opportunities also exist to modernize OEB regulatory compliance processes and streamline OEB processes to reduce regulatory costs and decrease time for regulatory decisions.

Conservation

Preamble: I've heard that when the Ministry plans for Ontario's electricity needs, conservation will be the first resource considered. You've said before that for every dollar invested in conservation programs, Ontarians have avoided about two dollars in costs to the electricity system.

Some of these initiatives are targeted to residential consumers and businesses, and I've heard from a few in my riding who have taken advantage of these conservation programs.

Q8: What conservation programs are available to promote affordability and give customers choices on how to increase the energy efficiency of their homes and businesses?

Minster response

Ontario has made great strides in transforming the electricity system into a clean, reliable and affordable electricity system.

Ontario's Conservation First policy and conservation programs are helping customers manage their energy bills, are offsetting system costs and are helping the Province achieve its greenhouse gas reduction targets.

Between 2005 and 2015, approximately $3.3 billion was invested in electricity conservation and demand management programs, including programs delivered by LDCs, the Ontario Power Authority (now IESO), and the Ministry of Energy's Home Energy Saving Program.

Between 2006 and 2015, electricity conservation programs and improvements in building codes and product efficiency standards helped Ontarians save:

- 13.5 TWh of electricity in 2015 – enough to power the cities of London, Kingston, Ottawa, Peterborough and Thunder Bay in 2015.

During the same time, the conservation programs delivered by Ontario's natural gas utilities saved over 1,700 million cubic meters of natural gas, equivalent to the natural gas used by over about 800,000 homes in a year.

Conservation programs are also resulting in significant GHG emission reductions. Electricity and natural gas conservation programs through the Conservation First

Framework, the Industrial Accelerator Program and the Demand Side Management Framework are expected to result in over 3.5 Megatonnes of GHG emission reductions in 2020. This is equivalent to taking over 800,000 cars off Ontario's roads for one year.

Through collaborative efforts by the IESO and the Demand Response Working Group, Ontario's demand response resources have grown significantly above the 2013 LTEP projections, and demand response has become a mature and competitive resource.

The IESO has successfully transitioned from securing demand response through multi-year contracts to an annual competitive demand response auction. The demand response auctions held in 2015 and 2016 reduced the cost of obtaining demand response by up to 27% when compared to previous contracts.

In order to further promote affordability, as part of the Ontario Fair Hydro Plan, this year my Ministry established an Affordability Fund to provide energy efficiency measures to Ontarians who do not qualify for low income conservation programs, and are unable to make energy efficiency improvements without support.

And, to improve the availability of conservation programs for low-income customers who are most in need, in August of this year I directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018. This program is expected to enhance and expand access to the Save on Energy Home Assistance Program.

My Ministry also remains committed to encouraging collaboration of conservation efforts among electricity and natural gas utilities, and working with the Ministry of Environment and Climate Change to provide a coordinated, one-window approach to existing conservation and new low-carbon technology programs offered by the Green Ontario Fund.

A coordinated approach is convenient for customers and can provide cost-efficiencies in program delivery.

To promote efficiencies and leverage IESO's significant program delivery expertise and resources, in August of this year I also issued direction to enable the IESO to support the design and delivery of Green Ontario Fund programs.

I'll ask the Deputy Minister, Serge Imbrogno, to speak in more detail about our important conservation programs and how they are promoting affordability by supporting Ontarians in improving their energy efficiency of their homes and businesses, and helping meet our climate change goals.

DM reponse

Thank you Minister.

Ontario's conservation and energy efficiency programs are helping Ontarians to manage their energy use and utility bills.

Conservation is the cleanest and most cost-effective energy resource. Historically, for every $1 invested in electricity efficiency programs, Ontarians have avoided about $2 in costs to the electricity system.

We know that conservation requires a sustained commitment to achieve ongoing savings over the long-term.

That's why on January 1, 2015, Ontario launched a six- year electricity Conservation First Framework, which is supporting the development of new and enhanced electricity conservation programs to meet local needs and offer more choice for consumers:

The Framework is expected to achieve 7 TWh of savings in 2020 and assist the province in achieving its long-term conservation target of 30 TWh in 2032.

In addition, on December 22, 2014, the Ontario Energy Board (OEB) released the six-year natural gas Demand Side Management Framework, doubling budgets and bringing Ontario's total spending on DSM in-line with leading jurisdictions.

Both these frameworks - The Conservation First Framework and the natural gas Demand Side Management Framework – are aligned to enable greater collaboration of conservation efforts among electricity and natural gas utilities.

And we are giving Ontarians more options. Outside of the conservation first and natural gas DSM frameworks, Ontario has a number of initiatives that contribute towards a clean, reliable and flexible electricity system. These include, but are not limited to:

Time-of-Use pricing pilots

As part of its review of the Regulated Price Plan, the OEB is working with electricity distributors to test innovative Time-of-Use price structures.

The results will help guide OEB decisions on potential new price plans that could give customers greater control, be better matched to their lifestyles and help improve system efficiency.

Demand Response auctions and Demand Response pilots

Demand Response, or DR, programs are continuing to reward electricity customers for reducing their electricity use at specific times of power system need.

The IESO is holding annual DR auctions, and conducting DR pilots to learn more about the operational capabilities of DR resources, and to assess the potential for DR to provide further benefits to the electricity system.

I'll ask the Assistant Deputy Minister of the Conservation and Renewable Energy Division, Kaili Sermat-Harding, to expand on the conservation and energy efficiency programs available in Ontario, as well as how these programs are benefitting Ontarians.

ADM reponse

Thank you. I am happy to expand on the details of the suite of conservation programs that are available in Ontario.

I'd like to start by highlighting electricity and natural gas conservation programs, and province-wide multi-fuel programs enabled through the Green Investment Fund.

Residential Electricity Programs

For residential customers, local electricity and natural gas distribution are delivering a suite of conservation programs.

Under the Save on Energy brand, and with support from the IESO, customers have access to:

- The **Save on Energy HEATING AND COOLING INCENTIVE**, which provides up to $850 in incentives for the purchase and installation of eligible central heating or cooling equipment through a participating contractor. Electrically heated homes can receive up to $4,000 rebates for high-efficiency heat pumps. The heating and cooling system is one of the biggest investments a homeowner will make.
    - Once the installation of central heating or cooling equipment is complete, a customer can save up to $325 a year on their electricity costs.
    - Electrically heating homes can save up to 50% on their heating costs by switching to high-efficiency heat pumps.

        - In addition, contractors can help customers program their heating and cooling system for different times of the day, offering further opportunities to save.

It is helpful to describe a participant's experience in the Heating and Cooling Incentive program:

        - The first step is to find a participating contractor on the Save on Energy website, which has a contractor look-up based on postal code, or by company name.
        - Step two is to install an eligible measure to make your home more comfortable and energy efficient. This could be a qualified high efficiency furnace, qualified central air conditioner, or qualified heat pump (if you have electric heating in your home).
        - The contractor will then submit an application on the participant's behalf. The contractor will send the application to the participant to confirm the application details, and so that the participant can submit proof of purchase.
        - The last step is for the participant to receive their rebate. A cheque will arrive in approximately four to eight weeks.

    - **Save on Energy Instant Discounts** are available starting October 6, 2017 at participating retailers for a wide variety of energy saving measures, such as LEDs, power bars and more. This program is taking the place of Coupons, which ends September 30.
    - **Save on Energy HOME ASSISTANCE PROGRAM** was developed to help income-eligible homeowners and tenants manage their energy use and costs by offering detailed in-home energy assessments, installing energy-saving measures at no cost, and advice on steps that can be taken to save even more energy.
        - Measures can include energy-saving light bulbs (LEDs), a power bar, low-flow showerhead and faucet aerators, new energy-efficient refrigerator or window air conditioner.
        - For electrically-heated homes, residents may be eligible for a programmable thermostat, weatherstripping around doors and windows, and additional insulation in the attic and basement.

- Social and assisted housing providers also qualify for assistance through this program to make their buildings more energy efficient.
- Further, in order to improve the availability of conservation programs that help low-income customers, in August of this year I directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018. This program is expected to enhance and expand access to the Save on Energy Home Assistance Program.
- On August 4, 2017, to further improve the availability of this program, the Minister directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018.
- It is expected that IESO delivery will result in enhancements and improved access to the Save on Energy Home Assistance Program.

I will describe a participant's experience in the HAP program:

To find out if they qualify, an interested customer would contact their local electricity distributor.

Once they've been deemed eligible, an HOME ASSISTANCE expert will make an appointment to visit their home. They'll review how the customer is using energy, including:

- what light bulbs they are using
- how old their major appliances are, and
- whether drafts are coming in through their doors, windows, attic or basement.

The HOME ASSISTANCE expert will also be able to advise if their home is eligible for a new, energy-efficient refrigerator or other appliance, such as a room air conditioner, or additional insulation in your attic or basement.

Through one or two additional appointments, the HOME ASSISTANCE expert will:

- give advice on changes to save energy,
- supply and install upgrades at no charge, and

- make sure the customer knows how to use all their new energy-saving upgrades correctly.

Utilities have also been innovating to help serve their customers better. As of May 2017 there are 10 new local programs in market and 20 pilots have been completed, are in market or under development. When a pilot or local program demonstrates good results and a cost-effective program idea, it can be adopted province-wide.

For example, Hydro One Networks launched the Heat Pump Advantage pilot program in Fall 2015 to help customers with electric space or water heating to take advantage of new cold-climate heat pump technologies. Enwin Utilities launched a similar heat pumps pilot in April 2016.

Results from these pilots helped to inform a March 2017 study by the IESO: on the opportunity for residential heat pumps in Ontario. The study found that residential heat pumps can help electrically-heated homes reduce their energy use for heating by up to 60%, and that there is near-term market potential for the technology in Ontario.

As a result of the pilots and the study two new province-wide initiatives have been launched:

- In May 2017, the IESO partnered with Enbridge Gas Distribution and Union Gas to test integrating electricity saving measures into the gas utilities' home audit and retrofit programs, expanding eligibility to electrically-heated homes and providing incentives for heat pump installations.
- And in July 2017, the Save on Energy Heating and Cooling Incentive Program was re-launched and now includes incentives for installing heat pumps in electrically-heated homes.

<u>Residential Natural Gas Programs</u>

There are also a number of programs available to residential natural gas customers under the **Demand Side Management Framework**.

- **Enbridge and Union Gas** are providing rebates to help qualifying home owners with rebates for energy assessments and home renovations to make energy efficiency improvements, including insulation in basements, walls, and attic, as well as air sealing.

- For example, the **Home Energy Conservation Program** and **Home Reno Rebate Program** offer between $1,600 and $5,000 cash back for eligible energy saving upgrades.

On February 4, 2016, Ontario announced a $100 million investment from the Green Investment Fund to enhance and expand the **Home Energy Conservation Program** and **Home Reno Rebate Program** delivered by Enbridge Gas Distribution and Union Gas. This investment enhanced the programs to be offered province-wide and to homes with primary heating by natural gas, oil, propane and wood.

This investment is expected to enable audits and retrofits of approximately 37,000 homes and save approximately 1.6 Megatonnes of cumulative lifetime greenhouse gas emissions, contributing to the province's GHG emissions reductions targets.

On May 31, 2017, the IESO launched a **Whole Home Pilot** in partnership with Enbridge Gas Distribution and Union Gas. . The pilot is testing the integration of incentives for electricity-saving measures in the home energy audit and retrofit programs funded through the DSM Framework and Ontario's Green Investment Fund, and the expansion of the program to electrically-heated homes.

The pilot is expected to be in market until December 31, 2017. The IESO will evaluate customer satisfaction, cost-effectiveness and program results to determine the future of this program enhancement.

Through these partnerships, every homeowner in Ontario can now benefit from a wide range of energy-saving rebates for the whole home. Ontarians can receive thousands of dollars in incentives through the Ontario Home Energy Conservation Incentive Program to get an energy assessment of their home and make upgrades throughout the house to use less energy – no matter how the home is heated.

The **Home Winterproofing Program** and **Home Weatherization Program** offer eligible low-income households a home energy assessment and insulation and draftproofing measures at no cost to help manage natural gas bills.

<u>Business Electricity Programs</u>

Now I'd like to turn our attention to the many programs we have for Ontario businesses.

The **Save on Energy for Business** electricity conservation program, made available through local distribution companies, with the support of the IESO, offers financial

incentives to help small businesses install energy-efficient equipment and improve the energy efficiency of their buildings.

There are several programs available to the commercial and institutional sector, including small businesses, municipalities, universities, schools and hospitals, through Save on Energy.

An energy audit is the first step in understanding how energy is being used in buildings. This will help to identify opportunities to reduce operating costs and improve performance.

Business customers are eligible for incentives to complete energy audits assessing the potential for energy savings through equipment replacement and operational practices.

The **AUDIT FUNDING** incentive is intended to cover up to 50% of the cost of an energy audit.

Under the **SMALL BUSINESS LIGHTING** program, qualifying businesses can get up to $2,000 in lighting upgrades.

Further upgrades to lighting, heating, ventilating and air conditioning (HVAC), and other systems can qualify for financial incentives worth up to 50% of project costs, through the **RETROFIT PROGRAM**.

The RETROFIT PROGRAM helps businesses install and benefit from newer, more energy-efficient solutions, allowing them to operate more efficiently and improve their bottom line.

Incentives are available for high-efficiency equipment such as lighting, motors and heating, and for installing new control systems to improve the overall efficiency of buildings.

Ontario is a leading jurisdiction in North America when it comes to cost-effective funding for energy managers. Energy managers have the technical expertise to identify and install energy-saving equipment and technologies. To ensure all businesses has access to energy managers, funding is provided through LDCs and the IESO for the following:

- The **LDC ENERGY MANAGER PROGRAM** serves businesses connected to the local distribution system
- The **INDUSTRIAL ACCELERATOR PROGRAM (IAP) ENERGY MANAGER PROGRAM**, delivered by the IESO,

serves businesses connected to the provincial transmission system

- The **MULTI-SITE CUSTOMER ENERGY MANAGER PROGRAM**, delivered by the IESO, provides centralized delivery for businesses with multiple sites connected to different LDC distribution systems
- The **SECTOR-BASED ENERGY MANAGER PROGRAM**, which is presently under development by the IESO, will provide energy manager funding to associations or businesses that serve a sector of Ontario's economy. Funding will be awarded based on a competitive procurement process.

For larger more complex projects and operations – for example industrial or institutional facilities, the Save on Energy **PROCESS AND SYSTEMS** program is designed to identify, implement, and validate energy efficiency projects from start to finish.

Incentives up to $50,000 are available for engineering studies and up to 70% of project costs for energy efficiency upgrades to reduce the payback period on large energy projects.

Home builders and renovators are encouraged to design and construct energy-efficient homes through **NEW HOME CONSTRUCTION** incentives for energy-saving measures.

And for those who own, operate, and manage buildings, **TRAINING AND SUPPORT** initiatives help provide access to the most up-to-date training, such as in building commissioning, certified measurement and verification, and how to be an energy manager.

Additionally, for those transmission-connected companies like our auto manufacturers, chemical, steel, and other large industry, the IESO's **Industrial Accelerator Program (IAP) provides** assistance to fast track capital investment in major energy conservation projects.

To enhance IAP delivery, following a December 2016 Minister's direction to the IESO, the distribution-connected sites of transmission-connected companies are now eligible to participate through the IAP program.

To summarize the IAP program offerings, the IAP is made up of four program streams:

- **RETROFIT PROGRAM**

- **PROCESS AND SYSTEMS PROGRAM**
- **HIGH PERFORMANCE NEW CONSTRUCTION**
- **MULTI-SITE CUSTOMER ENERGY MANAGER PROGRAM**

The **ENERGY PERFORMANCE PROGRAM INCENTIVES FOR MULTI-SITE BUSINESSES**, delivered by the IESO, provides centralized delivery for businesses with multiple sites connected to different LDC distribution systems.

The program encourages whole building energy performance improvements through incentives per kilowatt-hour of savings per year for up to four years.

This pay-for-performance model encourages participants who are able to make behavioural and operational changes alongside capital investment projects to achieve and grow energy savings over multiple years.

Business Natural Gas Programs

Ontario's two largest natural gas utilities, **Enbridge Gas Distribution and Union Gas**, also offer their business customers incentives to install energy-efficient equipment and improve the energy efficiency of their buildings.

They provide free services and financial incentives designed to help their customers make the most of the energy they consume. Enbridge and Union will work with their customers to design a solution that meets their customer energy needs and financial objectives

For example, Enbridge's **Energy Compass program** is a free benchmarking diagnostic service to help identify opportunities for capital and operational energy efficiency improvements in commercial buildings.

An Energy Compass report will:

- Provide recommendations for capital and operational improvements.
- Compare the energy performance of buildings in a portfolio.
- Identify buildings with higher-than-average natural gas consumption.
- Identify applicable Enbridge financial incentives that can offset the cost of making recommended energy-efficiency improvements.

Enbridge also offers its **Run It Right** program, which helps businesses to enhance existing building systems and operations to find energy efficiencies.

Unlike other incentives that require installing new equipment, the Run It Right program analyzes a building's energy performance in three simple steps to identify, implement and monitor low- and no-cost operational improvements that can lead to up to five per cent energy savings.

Both Enbridge and Union Gas provide custom and fixed **retrofit** incentives for efficient building equipment and systems retrofits such as space heating, water heating and food services.

Space Heating retrofit options are broad and include:

- Air Curtains
- Demand Control Ventilation
- Condensing Boilers, High-Efficiency Boilers, and High-Efficiency Boilers Energy and Heat Recovery Ventilation
- Infrared Heaters
- Condensing Make-Up Air Units

Water Heating retrofit options include ozone laundry systems, Energy Star dishwashers, condensing boilers and gas water heaters.

And retrofits for Food Services include demand control kitchen ventilation systems, and Energy Star qualified dishwashers and fryers and under-fired broiler.

<u>Mid-Term Review of CFF and DSM Frameworks</u>

As the Deputy Minister mentioned, the IESO and OEB are undertaking mid-term reviews of the electricity and natural gas conservation frameworks.

The IESO's Mid-Term Review of the Conservation First Framework and the Industrial Accelerator Program is focusing on conservation targets and budgets, lessons learned on LDC funding models, customer needs, conservation integration with regional planning. It will also look at alignment with Climate Change Action Plan (CCAP) initiatives and post-2020 approaches to energy efficiency.

In order to complete the review, the IESO completed an **Achievable Potential study** for electricity conservation in Ontario.

The Achievable Potential study was released on June 30, 2016 and found a potential of 7.4 TWh of savings that could be achieved by 2020 within the existing CFF budget - higher than the 7 TWh savings target currently established for 2020.

The IESO will use this study during their Mid Term Review as well as in their regional planning and long term energy planning processes.

In June 2017, the OEB initiated the mid-term review of the DSM Framework for natural gas conservation programs, which is expected to be completed by December 1, 2018. The review is looking at gas utility budgets and targets, as well as how the programs are meeting customer needs and interactions with Ontario's cap and trade program.

Demand Response

Business and residential customers may also be able to participate in demand response programs. Demand response programs reward electricity customers for reducing their electricity use at specific times of power system need. An example of demand response is a factory temporarily halting a process, or a group of residential consumers reducing their air conditioning when electricity demand is high.

IESO's second demand response auction in December 2016 procured approximately 455 MW for the summer commitment period (May 2017 to October 2017) and approximately 478 MW for the winter commitment period (November 2017 to April 2018).

Successful participants in the 2016 demand response auction include demand response aggregators (EnerNOC, Enershift/Rodan, NRG Curtailment Solutions, Ohmconnect, GC Project LP) and industrial consumers (Tembec, Resolute, Gerdau Ameristeel).

For the first time since the launch of the DR auction, a residential DR aggregator (OhmConnect) was successful in procuring DR capacity (1 MW capacity) in the 2016 DR auction. IESO is continuing to work with stakeholders to facilitate further participation of residential DR in future DR auctions.

The IESO is also running demand response pilot projects to learn more about the operational capabilities of demand response.

The next demand response auction is expected to take place in December 2017.

Affordability Fund

As the Minister and Deputy Minister mentioned, the government established the Affordability Fund as a part of the Ontario Fair Hydro Plan. The Affordability Fund will

provide energy efficiency measures to electricity residential customers who do not qualify for the Save on Energy Home Assistance Program and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and facilitate efficient distribution of funds to electricity distributors.

Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of low income organizations, in establishing eligibility criteria and guidance on funding allocation methodology. Program details are currently being finalized by the Trust.

The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.

It is expected that distributors will be able to start applying for funds this fall.

Green Ontario Fund

I have shared examples of the variety of conservation programs available, and ways our agency is now looking into further ensuring programs are meeting customer needs. Now I'd like to close with some words about how our Ministry is working with the Ministry of Environment and Climate Change to help further expand energy choices for Ontarians, and help the Province reach its GHG reduction targets.

The Ministry is committed to encouraging collaboration of conservation efforts among electricity and natural gas utilities, and working with the Ministry of Environment and Climate Change to provide a coordinated, one-window approach to existing conservation and new low-carbon technology programs offered by the Green Ontario Fund.

The Ministry of Energy also continues to work closely with its agencies and MOECC to support implementation of Green Ontario Fund programs.

In August 2017, the Ministry also directed the IESO to work with the MOECC and the Green Ontario Fund to support the design and delivery of Green Ontario Fund Programs. with a focus on reducing greenhouse gas emissions associated with energy usage and energy sources from Ontario residents and businesses.

IESO is offering its expertise, resources and infrastructure to support the Green Ontario Fund.

On August 30, 2017, Ontario launched the **Green Ontario Fund** and the **GreenON website**, a one-stop-shop to programs and rebates to reduce energy costs and help fight climate change.

On the same day, the Green Ontario Fund also launched the **GreenON Installations program**, which provides, for a limited time, a free home energy review and smart thermostat for eligible homes.

Coordination of Green Ontario Fund programs with existing conservation and energy efficiency programs will expand the offerings for customers and help achieve the government's energy savings and GHG emissions targets.

Closing

Ontario homes and businesses can take action to manage their energy bills by participating in Ontario's suite of conservation and energy efficiency programs.

The Ministry of Energy will continue to work with its agencies to ensure there are programs in market that are meeting the needs of Ontarians.

We will also continue to support MOECC to promote a coordinated, one-window approach to existing conservation and new Green Ontario Fund programs.

Smart Meters, Smart Grid and Grid Modernization

Preamble: Minister, you've mentioned in your lead-off that our government has had to make significant investments into our electricity system to make it more reliable. I believe that a part of these investments include smart meters and the smart grid. Several constituents in my riding have raised concerns about smart-meters, saying they don't understand why they were installed in the first place. And while I'm a little bit familiar with smart meters, and have heard that they help us conserve energy and drive costs down, I'm less clear on what the smart grid does.

Q9: Could you please explain what a smart meter does, what the smart grid is, and how they are advancing grid modernization in the province?

Ministers Response

The smart meters installed for nearly all of Ontario's residential and small business customers enable time-of-use pricing, giving Ontarians a tool to manage their electricity costs.

Smart meters are also helping electric utilities respond quickly to outages.

Smart meters, however, are only the first step in building a smart, modern grid for Ontario. The basic infrastructure delivering electricity to Ontarians has largely remained unchanged for decades.

New smart grid and grid modernizing technologies – including sensors, smart meters, and communications infrastructure – can provide the data and information needed to encourage new business models and enable customer choice.

These technologies can also benefit consumers and distribution companies through better reliability, improved asset performance, and resiliency to external events.

Grid modernization will enable Ontarians to realize the full value of emerging technologies and applications such as electric vehicles, electricity storage, and home energy automation systems.

These value propositions are enabled by our early investments in smart meters. They are a catalyst for modernizing our energy infrastructure and for providing customers with greater visibility and control of their energy use.

DM Response

Ontario has defined the smart grid as "the advanced information exchange systems and equipment that – when utilized together – improve the flexibility, security, reliability, efficiency, and safety of the integrated power system and distribution systems."

This definition is important. The focus of any efforts to modernize our electricity system – which includes the wires, the transformer stations, and utilities – must be done in a way that improves this infrastructure and provide better service to customers.

Smart meters are the platform upon which these improvements are being built. With the old, outdated analog meters, utilities had limited information about how consumers were using electricity over time, and the pressures that this energy demand exerted on the overall system.

With smart meters now in place, utilities are now empowered with information to manage their systems more efficiently and design better programs for customers. But more importantly, customers now have a new platform to become proactive consumers.

Time-of-Use, Green Button, and intelligent thermostats – these technologies are enabled by smarter infrastructure and a modern grid.

ADM Response

A smart meter is a digital meter that measures a consumer's electricity consumption on a time-interval basis and remotely relays it back to the Local Distribution Company (LDC) for billing purposes.

The primary difference between a smart meter and an analog meter – what was used by residential and small businesses prior to the Smart Metering Initiative – is how power consumption is tracked.

With analog meters, there was no means for utilities to track energy consumption remotely. Utility service workers would periodically take meter readings, which were used to determine how much power was consumed and what to charge. Customers could also report their usage in the same way.

Smart meters changed this approach. They are able to measure usage with significant accuracy and can remotely transmit this information to utilities using information and communication technology systems, not unlike how your mobile phone works.

This provides nearly instant information to the utility, and as I will describe in a moment, can do the same for customers through initiatives like Green Button. Smart meters are also the foundation for a Smart Grid and can help identify and eliminate service interruptions.

Over 4.8 million smart meters are being used to enable time-of-use pricing – the price we pay for electricity now better reflects the cost of producing it at peak and off-peak times.

With time-of-use, customers have the ability to better manage their costs by reducing or shifting their consumption to off-peak times when electricity is less expensive to produce. Doing this reduces Ontario's overall peak demand which provides environmental benefits, and means we can defer or avoid costs to invest new generation infrastructure.

Time-of-use pricing is regulated through the OEB's Regulated Price Plan, or RPP.

On November 16, 2015, the OEB released its RPP Roadmap identifying a 5-point plan for making changes to the RPP to better respond to policy objectives, improve system efficiency, and give consumers greater control. The OEB expects to implement this plan over the next 3 to 5 years.

Among their considerations are the following:

- Updating the RPP objectives to place a greater focus on peak demand reduction, efficient system operation and long-run system costs.
- Exploring opportunities to improve time-of-use communication, launch benchmarking pilots and undertake data collection initiatives aimed at enhancing consumer understanding and ability to respond to a pricing plan.
- Designing and executing pilots to assess customer response to alternative price structures.
- Undertaking a significant data collection initiative to better understand the needs of small business consumers.
- Working with the government and IESO to reduce barriers to set optimal pricing.

The OEB is undertaking TOU pilots as a part of its review of the RPP. The pilots include both price and non-price elements to satisfy two of the objectives of the RPP Review: implementing price pilots and empowering consumers. Pilots have begun rolling out and will run for at least one calendar year. The results of the pilots will inform future OEB decisions on offering customers choice between different TOU price plans province wide.

Smart meters greater benefits than just time-of-use pricing.

Smart meters are also helping electric utilities pin-point and respond more quickly to outages. They are giving utilities the granular information they need to monitor, operate and plan the system more efficiently.

By remotely and securely transmitting hourly meter reads, smart meters allow LDCs to deliver electricity to consumers more efficiently by reducing the requirement for manual meter readings and estimated bills. Other operational benefits for LDCs include enhanced grid visibility, improved outage management and more informed system planning.

Smart meters also facilitate participation in conservation and demand response programs which are designed to help consumers better manage their usage while simultaneously helping to manage demands on the system.

Smart meters are part of and the foundation for a smart grid, which will enable Ontarians to realize the full value of emerging technologies and applications such as electric vehicles, sto, and home energy automation systems.

A ‘smart grid’ uses modern sensors, monitoring, communications, automation, and computer systems to improve the flexibility, reliability and efficiency of the electricity system.

It can address many of the challenges our LDCs currently face.

For instance, with some assets in place for over 50 years, there is a need to refurbish or replace with new investments as necessary to meet system growth.

As infrastructure typically incurs high capital costs, utilities can look to smart grid technology for look for opportunities to leverage solutions that continue to maximize the use of existing assets.

Smart grid technologies can help increase the resilience of the distribution grid. This will help Ontario’s LDCs address extreme weather events.

In 2015, weather was the next most common reason for power outages in Toronto (after equipment failures and loss of supply from the transmission system).

On the weekend of December 21-22, 2013, a significant ice storm moved through Southern Ontario. Ice accumulation resulted in downed branches, trees and power lines, which resulted in over 500,000 customers losing power in Ontario.

There is a strong business case for continued investment in the smart grid.

According to Navigant’s *Smart Grid Roadmap*, if Ontario continues to invest in smart grid through 2035, the province can realize a net present value of $6.3B net present value by 2045.

This means building on our investment in smart meters, leveraging the infrastructure in place to build a modern grid for Ontarians.

Grid modernization involves changing from the traditional “analog” system to one that is digital, using sensors and modern communications to gather key data about how the system is working.

A modern grid can provide a number of important services for Ontarians:

- It can give customers more control of their energy use, and to interact with the system instead of just consuming power;

- It can provide much greater visibility, allowing utilities to see how their system is working in real time so they can quickly address problems and plan a more

efficient system; and

- And it can integrate new technologies – like energy storage, EVs, home energy automation systems, and renewable generation – in a way that both helps Ontarians control their energy use and optimizes the operation of our distribution grids.

Through the *Smart Grid Roadmap*, other independent studies, and feedback during our Long-Term Energy Plan engagements, we have heard that there are barriers to grid modernization. These technologies are much different than the ones made by our distribution companies over the last decades, and new to regulatory oversight.

Ontario's electricity sector faces barriers in incorporating these technologies where they make sense, including those of a cultural, technical, and regulatory nature. Moving forward, Ontario's approach to grid modernization is about exploring and addressing these barriers. In doing so, the Ministry and its agencies will aim to create the right environment for LDCs to make the best decisions for their systems and their customers. Enabling these investments will allow Ontario's LDCs to get even more value out of our smart meter deployment.

Other elements of a modern Ontario grid include the Smart Grid Fund, energy storage, meter data management, and electric vehicle integration.

The Smart Grid Fund provides financial resources to help companies, electricity utilities and organizations to demonstrate and commercialize the next generation of smart grid solutions by:

- Developing and advancing the smart grid in Ontario in the near term (improving reliability and flexibility of the electricity grid)
- Creating economic development opportunities and jobs for Ontario
- Reducing risk and uncertainty of important electricity sector investments.

There are 38 projects supported by Smart Grid Fund representing $50M for a total sector investment of approximately $200M.

These projects cover the following technology areas: grid automation, data management, home energy management, electric vehicles, electricity storage, microgrids and cyber security.

A third call for applications to the SGF launched on October 7, 2015. These projects are now underway.

Many of these technology focus areas were identified as high-value propositions by Navigant's *Smart Grid Roadmap*.

Meter data management is also part of the Ontario Smart Grid.

The province's Meter Data Management and Repository (MDMR) is the central system that stores and processes data for all smart meters in Ontario. The IESO, in keeping with its designation as the Smart Metering Entity (SME), is currently responsible for housing and operating the MDMR.

The MDMR receives hourly time and date-stamped meter reads from smart meters and performs a process referred to as Validating, Estimation and Editing (VEE) in order to return TOU framed data to LDCs for customer billing.

Every day, the MDMR receives between 100-120 million meter reads from residential and small business customers and processes between 200,000 – 300,000 billing requests from LDCs.

Ontario is also acting to leverage the data within the MDMR to realize the benefits to consumers from this consumption data, in particular by making non-personal information available to third parties to assist them in developing new innovative products and services that will enhance customer choice and control.

On January 26, 2016, the OEB issued an Order requiring that the SME expand the scope of data the MDMR collects.

To fulfill this mandate, the OEB has ordered the SME to begin collecting additional information, such as:

- Postal code.
- Distributer rate class.
- Commodity rate class.
- Occupant change data.

The SME started collecting this data on January 1, 2017.

This year, the SME established the Data Strategy Advisory Council to provide input in the review and development of products and processes for the implementation of third party access to MDMR data. Ministry staff are observers on the Council, which is currently focused on completing a privacy review of MDMR data, preparing several pilot projects, and establishing a framework for broad stakeholder engagement.

Throughout the design, implementation, and operation process, the SME will be guided by the Information and Privacy Commissioner's Privacy by Design principles, ensuring the anonymity of smart meter data, and security and privacy for Ontarians.

This third-party access platform is expected to launch in 2018.

The SME has also filed an application with the OEB for a reduced Smart Metering Entity Charge. This charge is included in the electricity bills of Ontario's residential and small business customers. If approved, the Smart Metering Charge will go down to $0.59 per month, a reduction of $0.20. The SME will contintue to provide its core functionality – storing, verifying, and transforming smart meter data into time-of-use data – and implment the third party access platform, all at a reduced rate for Ontario's ratepayers.

Renewable Energy for Residential

Preamble: In the 2013 Long-Term Energy Plan (LTEP), your ministry committed to examining the potential of transitioning the microFIT program from a generation purchasing program to net metering. Net metering is different, as it allows you to send electricity generated from renewable sources to the distribution system for a credit towards your electricity costs.

I've also heard that this year the microFIT and FIT program will be winding down. However, my constituents are still interested in generating their own electricity from renewable energy.

Q10: Minister, could you please describe what opportunities homeowners and communities have to generate their own electricity from renewable energy?

<u>Minister response</u>

The rapid growth of Ontario's clean tech and renewable energy sectors has attracted billions of dollars in investment to Ontario and led to the creation of thousands of new jobs.

As Ontario looks towards the future, green energy will remain an important part of both our electricity supply mix and our economy, supporting jobs and growth across the province.

As the FIT and microFIT programs wind down at the end of this year, Ontario is transitioning to a net metering framework to provide opportunities for homeowners,

businesses and communities to continue to play a part in Ontario's clean energy future by generating their own electricity from renewable energy.

We engaged stakeholders and in July we updated the net metering regulation to remove the 500 kW project capacity size limit and clarify the ability to pair energy storage with renewable energy systems.

The updated regulation provides greater opportunities for larger commercial and industrial electricity customers and clarity for combining energy storage technology with renewable generation, as well as streamlining other aspects of how net metering is delivered in the province.

The Ministry has also been examining potential additional net metering updates related to third-party ownership of net-metered generation and inclusion of virtual net metering in Ontario's net metering framework.

The Ministry has engaged stakeholders and Indigenous groups on these potential updates and has incorporated their feedback as policy options are considered.

An enhanced net metering framework will provide a platform for future innovation in clean, distributed energy and put the province at the forefront of renewable energy integration in Canada.

I'll ask Deputy Minister Serge Imbrogno, to provide some additional information about this important work.

DM response

Thank you Minister.

Net metering is a billing arrangement that allows customers to generate renewable energy onsite for their own use, and to receive bill credits for extra electricity that they send to the grid.

Under a net metering arrangement, a customer, such as a homeowner or business, can generate electricity from a renewable source while still drawing electricity from the local distribution grid when needed.

On July 1, 2017 amendments to the Net Metering regulation came into force. The changes to the net metering regulation – including, for example, removing the 500 kW size limit for projects and allowing for energy storage equipment to be paired with the renewable generation technology – are significantly broadening the opportunities

available to Ontario electricity consumers to generate their own electricity from renewable sources, such as solar, wind, biomass and hydro.

By facilitating the uptake of renewable energy to offset electricity demand, net metering also supports initiatives under the Government's 2016-2020 Climate Change Action Plan, such as enabling households, institutions and businesses, to move to net zero energy homes and buildings.

And since net metering generation capacity is sited at or close to load, over time it can help reduce peak demand and the need to invest in additional generation capacity or certain grid infrastructure.

Beginning in early 2017 the Ministry initiated a series of engagement activities on different approaches to further enhancing net metering. Two themes that emerged were Third Party Ownership of net metering facilities and Virtual Net Metering.

Third party ownership would improve the ability of companies to provide renewable energy products and services to homeowners, communities or businesses that wish to net meter.

Virtual net metering would allow customers who may not be able to install their own on-site renewable energy systems to participate in renewable energy projects located off-site, for example, apartment or condo residents.

The Ministry has been examining these potential net metering enhancements while also keeping in mind potential impacts and objectives, such as ensuring value to the system and avoiding cost-shifting within the rate base.

We look forward to sharing the Province's next steps and policy direction on net metering in the upcoming Long-Term Energy Plan.

I'll now ask ADM Kaili Sermat-Harding, to outline in more detail the work we have done to improve net metering and the work that is ongoing that would further exnd net metering opportunities.

ADM response

Thank you Deputy, I am pleased to have the opportunity to discuss how we continue to look for opportunities to enhance the net metering framework to improve customer access to renewable energy and enable innovative net metering business models.

Net metering is enabled through regulation (O. Reg. 541/05: Net Metering), which requires electricity distributors to offer net metering to their customers upon request. The Net Metering Regulation has been in place since 2005.

Ontario electricity consumers can participate in net metering by applying to their Local Distribution Company (LDC) to connect solar panels, or other renewable generation, to their home, business or community building to offset their electricity use and be eligible to be billed on a net-metered basis.

Ontario's 2013 LTEP committed the Ministry to "examine the potential for microFIT to transition from a generation purchasing program to a net metering program" and recognized the opportunity to expand and enhance the existing net metering framework.

Further direction on the transition of the microFIT program to net metering was outlined in the Minister of Energy's 2016 Mandate Letter, which provided that the FIT and microFIT standard offer programs would wind down, and updating and streamlining the net metering framework could reduce load on the electricity system and enable innovative technologies and customer-utility relationships.

In July 2016, after analysis and consideration of stakeholder feedback, Ministry staff presented a phased approach to updating the net metering framework for government consideration:

- The Part 1 Updates were to include near-term regulatory updates under existing regulatory authority, and;
- Part 2 Updates would involve additional potential updates to the net metering framework that would require legislative as well as regulatory amendments to implement.

Part 1 Updates

On August 19, 2016, the Ministry posted proposed amendments to the Net Metering regulation on the Environmental and Regulatory Registries for public comment.

On February 8, 2017, the approved Part 1 amendments were filed and posted on e-laws. The amendments came into force on July 1, 2017 and included:

- Removal of the 500 kilowatt (kW) project capacity size limit to allow for any sized renewable energy generation system, subject to the system being used primarily for the generator's own use;

- Allowing for the use of energy storage and its recognition for the purposes of net metering;
- Clarification that the valuation of bill credits from exported generation will remain consistent with the rate the customer is charged for electricity consumed;
- Clarification of the carryover period for bill credits at a consecutive 12 month period; and
- Allowing participants with existing net metering agreements to choose to opt into the updated terms, or to maintain their existing agreements.

The August 2016 Environmental and Regulatory posting also communicated several non-regulatory actions to be taken by the Ministry and the OEB.

Ministry actions included:

- Undertaking a cost-benefit analysis to determine whether investments in Ontario's Meter Data Management and Repository should be made to enable time-of-use (TOU) billing;
- Improving the availability of net metering program information; and
- Undertaking a cost-benefit evaluation of the program every three years, if required, coinciding with the Long-Term Energy Plan cycle.

OEB actions included:

- Developing a standardized net metering application and agreement, with consideration for streamlining processes;
- Collecting net metering information from electricity distributors at more frequent intervals to monitor implementation of the initiative; and
- Improving the availability of net metering program information.

The Ministry has taken steps to meet the non-regulatory commitments in the Environmental and Regulatory Registries posting, including:

- In June, 2017 the Ministry initiated engagement with LDCs and the IESO on a cost-benefit analysis for implementing TOU billing, and;

The Ministry has made more information on net metering available on its website and will continue to engage the OEB on improving net metering information available to LDCs and the public.

The OEB is undertaking the following steps to meet its commitments:

- On May 25, 2017, the OEB issued a Notice of Amendment to the Distribution System Code (DSC) to ensure requirements in the Code for net metering are consistent with the amended net metering regulation.

The OEB is also conducting their own Net Metering Consultations with LDCs and has formed a Net Metering Working Group. The consultations are intended to inform approaches to:

- Improving the availability of information on net metering;
- Improving process efficiency by ‘standardizing’ net metering applications and agreements;
- Enhancing how net metering activity is tracked via the OEB’s Reporting and Record-Keeping Requirements (RRR);
- Modifying the DSC in relation to the maximum cumulative generating capacity from net metered generators; and
- Managing and recovering distributor administrative costs related to net metering.

Part 2 Updates

Third-party Ownership (TPO) and Virtual Net Metering (VNM) emerged during stakeholder consultations for Part 1 Updates as two potential areas for further enhancements to Ontario's net metering framework.

- TPO arrangements involve third parties owning and operating net-metered renewable generation systems located at electricity customer sites and selling the power generated to the customer. This could provide a property owner with an opportunity to participate in a net metering project without incurring the upfront capital cost of installing the system or the obligation to maintain the system.
- VNM involves net metering of generation that is not located at the customer site and selling power "virtually" to one or more participants, who receive a credit on their electricity bills for a power the system exports to the grid. VNM projects can enable larger scale projects with participation of many customers. VNM could expand participation in net metering to include condos, apartments, co-ops, and other shared generation arrangements, thereby providing greater consumer access to renewable energy.

In early 2017, the Ministry held specific stakeholder consultations on TPO and VNM, including a public webinar, stakeholder questionnaire, targeted meetings with stakeholders and Indigenous groups and continued engagement with our Advisory Working Group, we received input.

Stakeholder Engagement

Outcomes of the Ministry's stakeholder and Indigenous engagement have informed policy options.

On Third-Party Ownership (TPO) we heard that:

- The renewable energy industry supports TPO, citing it as important to continued activity in Ontario;
- The business models, target markets and project configurations the sector is contemplating would largely be enabled by eligibility of TPO in Ontario's net metering framework, leading to new business opportunities;

- LDCs, and LDC affiliates, support TPO, subject to appropriate consumer protection measures and clearly defined relationships between LDCs, customers and TPOs.

On Virtual Net Metering (VNM) we heard that:

- There was support from municipalities for a VNM framework that included municipal and institutional buildings.
- LDCs were supportive of VNM, depending on scoping and implementation but expressed some concerns about billing and administrative challenges to accommodate complex VNM projects;
- The renewable energy sector supports VNM as it could enable large projects (up to 10MW) that could be marketed as community net metering to large numbers of customers, and;
- Flexibility for VNM demonstration projects was suggested by some LDCs and industry proponents as an alternative to implementing a regulatory requirement for VNM;

The Ministry continues to engage with the OEB on implementation considerations and consumer protection.

Time of Use (TOU) Compensation for Net-Metered Customers

ENERGY is considering the costs and benefits of enabling TOU settlement for net-metered customers in Ontario. Net-metered customers are currently settled using tiered rates due to limitations with the province's Meter Data Management and Repository (MDM/R).

ENERGY has issued a survey to all LDCs to collect data on the costs and benefits of implementing TOU settlement and is also currently engaged with the IESO Smart Metering Entity (SME) to determine the costs of upgrades to the MDMR. The survey period has now closed and 27 responses were received.

We are aiming to complete our analysis later this year.

Conclusion

The extent of the work the Ministry is undertaking demonstrates a measured approach to enhancing the Province's net metering framework and a commitment to evidence-

based policy that considers all potential benefits and cost impacts to electricity distributors, ratepayers, and business.

It also demonstrates the level of interest in these changes from the sector, customers and LDCs alike. As customer needs and utility business models evolve, net metering will play an important role in the way we consume electricity and in the way it is supplied. Ontario is taking a leadership role in developing the policies that balance the need for clean, reliable and affordable energy now and in the future.

As the Deputy has mentioned, the upcoming LTEP scheduled to be released this fall will provide detail on the additional changes to the province's net metering framework that are being proposed at this time.

Energy Storage

Preamble: The action your Ministry has taken in eliminating coal and supporting renewable generation has been remarkable. But I have also heard that many of our renewable generation sources, such as solar and wind, are intermittent generation sources. This means that they are not always available to generate electricity. Wind Turbines for instance, generate mostly at night, while solar panels generate during the day.

But electricity storage technology can help with this. I've heard from several constituents about electricity storage solutions, such as pumped storage and batteries, and how we could harness tem to increase reliability.

Q11: Could you please tell us whether the government is moving forward with Electricity Storage solutions and/or ideas?

<u>Minister response</u>

Energy storage technologies have the potential to revolutionize the electricity system, increasing its efficiency, lowering costs and increasing reliability for the consumer.

The IESO has completed procurement of 50MW of energy storage projects that will demonstrate the ability of energy storage to provide ancillary services to support the electricity system. The first of these projects should come into service later this year.

The IESO has published a report on the opportunities for energy storage to provide services to the Ontario electricity system. The Ministry has commissioned a further report on the opportunities for energy storage within the distribution networks. From

these reports, we learned that there are significant opportunities for energy storage to provide services to Ontario's grid in the coming decades.

Our efforts have led us to recognize that barriers remain to gain full value from energy storage and allow it to compete fairly with other technologies. Accordingly, we will move to amend government regulations to address charges that inhibit the ability of energy storage to compete fairly with other technologies, including how these facilties are charged Global Adjustment. This is just one way we continue to apply the lessons from our studies and our 50MW procurement to support energy storage in a prudent way.

DM response

Electricity production must be matched to consumption at all times, and flexible sources of generation are dispatched by the system operator to maintain this balance.

Storage changes this dynamic for the electricity sector. We're all aware of energy storage in more conventional forms – fuels like coal and gasoline – and even hydroelectric storage through reservoirs and pumped storage facilities that store water for later use.

However, old technologies like batteries are changing, and new technologies like flywheels and compressed air storage are now being tested to better understand how the work on the system.

Ontario is one of these leaders in energy storage. What works in one jurisdiction may not work in another, so in order to discover how energy storage could benefit Ontario's electricity system, the province has moved forward on several different initiatives to build this knowledge.

These steps – a targeted energy storage procurement, independent studies, innovation funding – show a prudent and balanced approach to building our knowledge of how storage can work on Ontario's grid. These learnings will instruct the path forward for energy storage in Ontario.

ADM response

I would like to step back a bit and provide some more details. Energy storage is a promising technology that has a number of different applications for Ontario's electricity system:

- It can be used to help balance electricity supply and demand on a second-by-second basis;
- It can balance the intermittency inherent in solar and wind generation, increasing the value of our renewable assets to the system;
- It can help improve system reliability;
- If appropriately located, it can defer the need to replace system assets; and,
- It can provide other technical services, such as voltage control.

In the last Long-Term Energy Plan, the government committed to including storage technologies in our procurement process, starting with 50 MW of storage.

The Independent Electricity System Operator (IESO) completed the 50 MW procurement over two phases.

In Phase 1, 33.5MW of storage was procured from 5 providers with 12 different projects. Four different types of technologies were represented in this phase: flywheel, hydrogen, thermal, and battery storage.

These technologies are expected to come online by the end of the year and provide regulation and voltage control for the IESO grid.

In Phase 2, 16.75 MW of storage was procured from 4 providers with to 9 different projects.

Three different types of technologies were represented in this phase: flow batteries, solid batteries, and compressed air energy storage.

The purpose of this second stage is to provide long-term capacity services to Ontario's grid. These projects are expected to come online in late 2018.

Ontario's procurement is unique, because of its quick implementation and its competitive framework.

This procurement was based on a real commercial process, similar to those applied to contracting for energy service for the Ontario market, with concrete commercial terms of operation and performance requirements.

Consider just four types of technology:

- An example of a Flywheel project is one in Harriston, where the company NRStor is using Temporal Power's flywheel system to provide regulation services to the Ontario grid. This is the first first grid-connected commercial flywheel facility in Canada, and has now led to Temporal Power's first export success to the island of Aruba.
- Batteries: Thanks to eCamion and Toronto Hydro, we have the first energy storage system installed directly into an urban community, at the Roding Arena and Community Centre in North York. A system like this one, which can power a community centre, a light industrial complex or small residential street, can lessen the strain on the system at times when we're experiencing peak demand.
- Underwater compressed air: This utility-scale solution promises to hold power for weeks without losing capacity. Another Ontario company, HydroStor, is leading the way on this one, collaborating with Toronto Hydro on the world’s first underwater compressed air storage project, located near the Toronto Islands.
- Pumped storage: Ontario Power Generation's Adam Beck facility is the largest and most flexible energy storage facility in Canada. The reservoir will hold 20 million cubic metres of water, and can do the work of 600 MW of fossil fuel generation for up to eight hours. With its recent refirbishment, we can look forward to another 50 years of service from this facility.

The Ministry also committed in the Long-Term Energy Plan to study the value of energy storage and its many applications.

In March of this year, the IESO completed a study on the benefits of storage to the bulk system.

The IESO report found that Energy storage technologies can be used to provide some of the services needed to reliably operate the power system.

Energy storage could also help improve the utilization of existing transmission and distribution assets by deferring some costs associated with their upgrades or refurbishments, as well as improve the quality of electricity supply in certain areas of the system by controlling local voltages.

That said, energy storage needs to be considered as complimentary to our current assets that provide services to the grid. Its also important to note that location and energy storage technology types are important considerations in understanding their value for a particular service to our bulk system.

The Ministry is has recently completed a study to understand the potential value of energy storage at the distribution level, which we will soon release.

This report found that beyond grid services, energy storage can be effective in helping large energy customers to reduce their electricity bills.

Both of these studies highlight that while the cost of energy storage devices are going down, they remain expensive. Further, they can provide a range of different benefits, but realizing those benefits depends a great deal on how the electricity system is structured, operated, and regulated.

The government is also committed to address barriers that limit the ability of energy storage technologies to compete in Ontario's electricity market.

For example, the OEB has created a new asset class for storage, while recent changes to Ontario's net metering framework now explicitly permit energy storage coupled with renewable energy to participate in the program.

There are other barriers that the Ministry continue to investigate. For example, our study on energy storage on distribution networks found that the way in which Global Adjustment charges are applied to energy storage is the single biggest regulatory barrier to the use of energy storage at low voltages, and that addressing the treatment of Global Adjustment for energy storage would substantially improve its competitiveness.

The Global Adjustment is just one barrier that the Ministry plans to address in the coming weeks. Some energy storage applications may be charged Global Adjustment on the energy they take from the grid, but are not reimbursed for the energy they return. Meanwhile, the end-customer who consumes the energy released by the storage facility pays Global Adjustment as well – meaning that we are collecting the fee twice. This reduces the competiveness of energy storage, and fails to recongize the value it provides to the grid by releasing energy during times of peak demand.

The Ministry plans to move ahead to amend the regulation that governs the Global Adjustment to address this issue, and ensure that energy storage can compete on a level playing field with other technologies.

This is just one of the barriers that energy storage faces in Ontario. Ministry and agency staff will continue to work to find a clear path forward on these issues.

The Ministry is also encouraging storage technology through our Smart Grid Fund. One of the key elements of the Smart Grid Fund is to focus support on demonstrating technologies that have commercial applications domestically and abroad.

Several of the Ministry's Smart Grid Fund projects include energy storage. Here are just a few:

eCamion is developing three storage in Toronto, Sudbury, and Ottawa. Each of these projects is unique and will help eCamion to demonstrate the value of storage under different applications. In November 2016, the Minister opened the Sudbury site. This technology uses three energy sources: solar panels, a battery bank to store the power, and electricity from the Greater Sudbury Hydro's local distribution grid. This project will help Science North – Canada's second-largest science centre – reduce its dependence on the electricity grid and gain greater influence over their consumption.

Ryerson's Centre for Urban Energy is working with Toronto Hydro to test a world-first, pole-mounted storage device. Since it is mounted on a pole, this device has no footprint. The unit intellegently charges during off-peak times, and provides electricity during peak hours to support a nearby transformer.

Other projects include Panasonic's efforts to include a battery into a larger microgrid at University of Ontario Institute of Technology to support reliability and resiliency on campus. Renewable Energy Systems is developing an energy storage system to support a local distribution company's substation. Upon completion, this project will not only improve the quality of supply for those customers connected to the substation. It will allow the LDC to defer investment that would otherwise be necessary to upgrade the substation.

These initiatives will provide a much better understanding of the value of energy storage on Ontario's electricity systems, information that is critical to determine the path forward for this technology in the province.

As you know, the Ministry will soon release the next Long-Term Energy Plan. It will build on our learnings from our prudent approach to energy storage. Like other non-wires alteratives, there are barriers that prevent Ontario's distribution companies from investing in energy storage in ways that make sense for the system and for ratepayers. As part of our LTEP process, we will work with our agencies to address these barriers

and create create the right environment for utilities to modernize their grids. These efforts should create new opportunities to capture the full value of energy storage.

Climate Change Action Plan (CCAP)

Preamble: With the unusually hot weather this past September, I think we can all agree that we're feeling the effects of climate change. In June 2016, the government released its first five-year Climate Change Action Plan (CCAP). Ontario's Climate Change Action Plan will provide people and businesses with tools and incentives to accelerate the use of clean technology that exists today. Through this plan, the province is continuing to reduce greenhouse gas emissions to fight climate change.

Building on Ontario's climate change legislation, the plan ensures that proceeds from the province's recently finalized cap and trade program are invested in a transparent and accountable way back into green projects that will help households and businesses reduce greenhouse gas pollution and save on their energy costs.

Q12: How is the electricity sector contributing to the province's battle against climate change?

Minister Response

Ontario has been taking strong climate-positive actions for years, such as successfully eliminating coal as a source of electricity generation and developing a long-term energy plan that focuses on a safe, clean, reliable and affordable energy future.

The Ministry of Energy is continuing to work closely with the Ministry of Environment and Climate Change (MOECC) and its agencies to develop and implement a variety of initiatives outlined in Ontario's Climate Change Action Plan (CCAP) and have taken into consideration Ontario's greenhouse gas (GHG) emissions reduction targets in the development of the 2017 Long-term Energy Plan (LTEP).

I'd ask that my Deputy Minister Serge Imbrogno provide further details on the electricity sector's contribution to Ontario's fight against climate change.

Deputy Minister Response

Ontario has taken significant action to reduce greenhouse gas (GHG) emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation.

The elimination of coal-fired generation represents a 30 megatonne (Mt) reduction in GHG emissions since 2003. In 2016, 90 per cent of the grid-connected power generated in Ontario came from clean sources of energy such as nuclear, water and other renewables. As a result of these efforts, Ontario's electricity system is in a strong position as the province transitions to a low-carbon economy.

I'd ask that Assistant Deputy Minister Steen Hume provide further details on how Ontario's electricity sector is responding to the challenge of climate change.

ADM Response

By way of background, in April 2015, Premier Wynne announced that Ontario would be putting a limit on greenhouse gas (GHG) emission through the implementation of a cap and trade program, which is a flexible, market-based program with targets (caps) that get more stringent over time. It should be noted that Ontario's caps are set at a broader economy-wide level rather than by sector.

Ontario has recent announced that it has to joined the cap and trade program that Quebec and California have implemented and which was developed under the Western Climate Initiative (WCI).

Ontario's cap and trade program will support implementation of the Climate Change Action Plan (CCAP) and help meet it's our greenhouse gas (GHG) emission reduction targets of:

- 15% below 1990 levels by 2020;

- 37% below 1990 levels by 2030; and

- 80% below 1990 levels by 2050.

On January 1, 2017, Ontario's cap and trade program took effect. So far, Ontario has successfully administered its first three quarterly cap and trade auctions in March, June, and September 2017. All current (2017) allowances that were offered at the auctions were sold (along with a portion of the offered future vintage allowances). Total proceeds for the province were approximately $1.5 billion.

By law, all proceeds from cap and trade will be invested into projects that support greenhouse gas (GHG) reductions. This will:

- Create good jobs in clean tech and construction;
- Generate opportunities for investment in next generation clean technologies; and

- Help Ontario decarbonize by shifting away from fossil fuels.

Decarbonisation of Ontario Electricity System

We respect to the decarbonisation of Ontario electricity system. In 2003, when Ontario committed to the phase-out of coal, coal-fired generation provided 25 per cent of Ontario's electricity and represented the largest single source of greenhouse gas (GHG) emissions in Ontario. A 2005 independent study estimated the financial and environmental impacts of coal-fired electricity had an annual cost of $4.4 billion.

Phasing-out coal-fired electricity generation represented the single largest climate change initiative in North America. In April 2014, Ontario burned its last piece of coal for electricity generation.

The elimination of coal-fired generation has led to a 30 Mt reduction in greenhouse gas (GHG) emissions, the equivalent of taking up to 7 million cars off the road.

Ontario was the first jurisdiction in North America with a significant reliance on coal-fired electricity to eliminate it as a source of electricity production. The phase-out has also helped in meeting Ontario's greenhouse gas (GHG) emission reduction targets.

Ontario's Supply Mix

In addition, between 2005 and 2015, the share of installed renewable energy capacity in Ontario's electricity supply mix has grown from 26% to 40%. Ontario is now Canada's leading province for both installed wind energy capacity and solar photovoltaic capacity.

Currently, approximately 7,500 MW of non-hydro renewable generation (i.e., wind, solar and bioenergy) is connected to both the transmission and distribution networks in Ontario. In 2016, non-hydro renewables produced approximately 10.25 TWh of energy. By the end of 2016, there was more than 3,100 MW of embedded generation in commercial operation within local distribution systems.

According to the Independent Electricity System Operator's (IESO) 2016 Ontario Planning Outlook, greenhouse gas (GHG) emissions are expected to rise slightly following the retirement of the Pickering generation station in 2014, but will remain well below historical levels and stay relatively flat through to 2035.

Cap and trade is designed to limit GHG emissions and is a cornerstone in the province's measures to address climate change. All emissions from electricity generation are subject to a carbon price through the cost of fuel. Natural gas distributors purchase allowances to cover emissions of consumers that are not directly covered under cap and trade, including most natural gas-fired electricity generators. Natural gas-fired

electricity generators are expected to pass on the cost of carbon through increased offers into the wholesale electricity market. As a regulated entity, costs incurred by gas distributors to comply with the cap and trade program would be passed on to natural gas consumers once approved by the Ontario Energy Board (OEB).

Non-emitting electricity generation, such as wind and solar power, is not subject to a carbon price and therefore will not impact the price of electricity.

The addition of a carbon price as part of Ontario's cap and trade program to emitting electricity generators will also reduce the amount of electricity exported from natural gas-fired generators, further reducing Ontario GHG emissions.

Climate Change Action Plan

The Ministry of Energy is working closely with Ministry of Environment and Climate Change (MOECC), the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and other key energy sector stakeholders to implement a variety of Climate Change Action Plan actions.

The Ministry of Energy is currently supporting such Climate Change Action Plan (CCAP) items, such as:

- Energy efficiency and clean energy projects for homes, businesses and industry;
- Electrification of transportation;
- Programs to support renewable micro-grids and alternative energy projects to reduce diesel in remote First Nations; and
- Municipal programs, including community energy planning.

In closing, the Ministry of Energy has taken into consideration Ontario's greenhouse gas

(GHG) emissions reduction targets in the development of its upcoming Long-term Energy Plan (LTEP) and will continue to support the implementation of Ontario's Climate Change Action Plan (CCAP)

Nuclear Refurbishment

Preamble: Last year, your Ministry announced that it would go ahead with nuclear refurbishment projects at both the Darlington and Bruce generating stations, and continued operations at the Pickering generating station to 2024.

I've heard some concern in my riding from constituents who are questioning the need to extend the life of these nuclear facilities. On the other hand, I've heard of many benefits of the nuclear sector, including environmental and health.

Q13: Could you please provide the rationale behind the Government's decision to proceed with nuclear refurbishment? How is nuclear energy helping Ontario meet its climate change targets?

Minister Response

Our priority is to ensure that Ontarians have access to a reliable, affordable and clean supply of power where and when they need it.

To date, Ontario has taken significant action to reduce emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation, including the refurbishment and restart of 2 Bruce nuclear units.

Phasing-out coal-fired electricity generation was the single largest climate change initiative in North America and the equivalent of taking up to 7 million cars off the road.

Altogether, about 90 per cent of the power generated in Ontario during 2016 came from clean sources of energy such as water, nuclear, wind, solar, and bioenergy.

Our government is committed to nuclear power and is making important investments in nuclear generation. Nuclear power is the backbone of Ontario's electricity system.

Nuclear generation is reliable, cost-effective, GHG-free and currently provides about 60% of Ontario's energy needs.

Nuclear power plants are able to operate reliably and continuously, making them ideally suited to meet around-the-clock "baseload" energy needs (i.e., the minimum demand that is always present in the system).

In 2016, all 3 of Ontario's nuclear plants – Darlington, Bruce and Pickering – received "Satisfactory" or "Fully Satisfactory" ratings from the Canadian Nuclear Safety Commission (CNSC). In fact, Darlington has received the "Fully Satisfactory" rating for the eighth year in a row, the strongest continuous performance by any Canadian nuclear power plant.

Nuclear doesn't only power Ontario's economy, it drives it too. The nuclear industry supports tens of thousands of jobs and billions of dollars in economic activity annually.

As laid out in 2013 LTEP, Ontario is moving forward with plans to refurbish 10 nuclear units at Darlington (4 units) and Bruce (6 units) between 2016 and 2033.

The upgrade of Ontario's nuclear fleet will ensure we have safe, reliable, emissions-free energy where and when we need it and contribute to job creation and economic growth.

Furthermore, Ontario's nuclear reactors are vital for the production of medical isotopes that can diagnose and treat life-threatening diseases. These isotopes can also sterilize

medical equipment such as hospital gowns, gloves, masks, implantable devices and syringes, as well as some food products.

Our decision to refurbish our nuclear fleet will help secure the supply of these critically important, life-saving medical isotopes over the long-term.

Deputy Imbrogno will now speak in more detail about the merits of nuclear refurbishment.

Deputy Minister Response

Ontario has been safely operating nuclear power plants for over 40 years starting with the launch of Canada's first full-scale nuclear reactor, Douglas Point, back in 1968.

There are currently 18 operational reactor units in Ontario, spread across 3 sites (Darlington, Pickering and Bruce), for a combined capacity of about 13,000 MW. Another 2 units at Pickering have been shut down and undergoing decommissioning.

Ontario's nuclear reactors are designed to provide electricity generation for approximately 25 – 30 years. Refurbishment and replacement of key reactor and station components is necessary to allow for continued operation for approximately 30 additional years.

Nuclear refurbishment received strong, province-wide support during the 2013 Long-Term Energy Plan (2013 LTEP) consultation process.

The merits of proceeding with nuclear refurbishment are clear.

Refurbished nuclear is expected to be the most cost-effective and emissions-free generation available to Ontario for meeting its round-the-clock power requirements.

Existing nuclear generating stations are located in supportive communities and have access to high-voltage transmission.

The refurbishments at Bruce and Darlington will support Ontario's globally recognized nuclear supply chain, with more than 180 companies and over 60,000 jobs, including a highly-skilled workforce in plant operation and support, nuclear refurbishment and manufacturing supply chain.

Ontario's commitment to refurbish its nuclear fleet will also create a strong foundation for Ontario's nuclear suppliers to export their products and services to a global nuclear industry.

I'd ask Steen Hume, Assistant Deputy Minister of the Energy Supply Policy, to discuss in more detail the specific benefits and opportunities of the Darlington and Bruce refurbishments.

ADM Response

On December 3, 2015, the government announced that Ontario has updated its contract with Bruce Power and will proceed with the refurbishment of six nuclear units at the Tiverton-based nuclear generation station. The first Bruce refurbishment is scheduled for 2020.

Then, on January 11, 2016, the government announced its decision for OPG to proceed with the refurbishment of four units at Darlington, securing 3,500 MW of power. On October 15, 2016, OPG commenced the first unit refurbishment (i.e., Unit 2 refurbishment).

Together with the 2 Bruce units that were refurbished in 2012, these refurbishments will secure over 9,800 MW of affordable, reliable and GHG-free baseload generation capacity, and support GHG-reduction targets set by Ontario's Climate Change Action Plan.

The updated Bruce agreement secures 6,300 MW of emissions-free, baseload generating capacity from the Bruce site over the long-term. The updated agreement has achieved $1.7 billion in savings for electricity customers when compared to the forecast in the 2013 LTEP. This means a reduction in forecast household electricity bills by about $66 each year over the next decade.

Bruce Power is expected to invest approximately $13 billion of its own funds and will take full risk of cost overruns on refurbishments of the six nuclear units

The Bruce site is estimated to maintain 22,000 direct and indirect jobs annually, with $4 billion in annual Ontario economic benefits through spending on operational equipment, supplies, materials and labour income.

During the Bruce refurbishments, the Bruce site will provide an additional estimated 5,000 direct and indirect jobs annually, with $2.3 billion in annual economic benefits.

For Darlington refurbishments, OPG's budget for the project is $12.8 billion, about $1.2 billion less than originally projected by OPG, and all four units are scheduled for completion by 2026.

The refurbishment of Darlington, now underway, is critical to Ontario's energy future. Darlington refurbishment will boost economic activity across Ontario, create jobs, and secure 3,500 MW of affordable, reliable and emission-free power for 30-plus years.

The Darlington refurbishment and continued operation up to 2055 will contribute $90 billion to Ontario's GDP and increase employment by an average of 14,200 jobs annually, including over 2,600 jobs onsite at Darlington. Also, a report by an independent third party highlighted that Darlington refurbishment will help reduce Ontario's GHG emissions to the equivalent of taking two million cars off the road each year.

The average cost of power from Darlington nuclear units post-refurbishment is estimated to range between $72/MWh and $81 MWh, or 7 and 8 cents per kilowatt hour in 2015 dollars.

The starting price of the Bruce output under the updated refurbishment contract is $65.73/MWh and estimated to be $77/MWh over the life of the contract in 2015 dollars.

Both Darlington and Bruce prices are within the range assumed in the 2013 LTEP for refurbished nuclear energy and are lower than the average price of electricity generation in Ontario, which in 2015 was $92/MWh.

Pickering, our first commercial nuclear plant facility, will not be refurbished once it reaches the end of its safe operating period. The Government approved a plan for OPG to complete confirmatory work and seek the necessary regulatory approvals from the Ontario Energy Board (OEB) and Canadian Nuclear Safety Commission (CNSC) to enable ongoing operation of the Pickering Generating Station up to 2024.

At that point, all Pickering units would be shut down and decommissioned. Operating Pickering up to 2024 would ensure that the province has a reliable, affordable and emission-free source of "round the clock" power during the Darlington and initial Bruce refurbishments.

As the Minister mentioned, in addition to powering our economy, our nuclear reactors have broader societal benefits, such as production of key medical isotopes.

Medical isotopes are currently produced in a number of Ontario's nuclear power and research reactors, including:

- Ontario nuclear power reactors: Bruce B and Pickering reactors; and

- Ontario Research reactors: National Research Universal (NRU) reactor at the federal Canadian Nuclear Laboratories (Chalk River, Ontario) and McMaster Nuclear Reactor at McMaster University (Hamilton, Ontario).

Cobalt-60 is one of the most prominent medical isotopes produced in Ontario's reactors. Cobalt-60 is primarily used in medical equipment sterilization and cancer treatments.

Ontario's power reactors (i.e., Bruce B and Pickering) currently supply 70 per cent of the world's Cobalt-60, which is used to sterilize medical equipment such as hospital gowns, gloves, masks, implantable devices and syringes. Cobalt-60 has also recently been used to sterilize mosquitoes to stop the spread of mosquito-borne viruses and illnesses such as Zika; and

A special form of Cobalt-60, known as High Specific Activity Cobalt (or HSA Cobalt) accounts for 10 million cancer therapy treatments each year around the world. Until now it has mostly been produced at the NRU.

Ontario's research reactors produce a number of other medical isotopes (e.g., Molybdenum-99, Lutetium-177, Iodine-125) that play a critical role in the diagnosis and treatment of critical diseases.

With NRU slated to be shut down by March 2018 and Pickering by 2024, Ontario's refurbishment program is helping to secure the supply of these critically important medical isotopes over the long-term.

- On November 7, 2016, OPG and Bruce Power signed a memorandum of understanding (MOU) to ensure a continued long-term stable supply of life-saving Cobalt-60. The companies will look for innovative ways to expand Cobalt-60 production to the Darlington and Bruce A facilities;

- On November 8, 2016, Nordion and Bruce Power announced a new long-term supply agreement for Cobalt-60 - including HSA Cobalt - over the life of the updated Bruce refurbishment contract (i.e., until 2064); and

- On August 8, 2017, Bruce Power and Areva signed an MOU to explore the *on-line production* of medical isotopes (i.e., a process that allows insertion and harvesting of isotopes during normal reactor operation as opposed to during maintenance outages). Such a capability would allow the production of shorter-lived medical isotopes (e.g., Molybdenum-99, Lutetium-177 and Iridium-192) which are currently only produced by research reactors such as NRU and McMaster Nuclear Reactor.

Q14: What are the benefits of OPG's plan for ongoing operation of the Pickering station?

Minister Response

In January 2016, the government approved a plan for OPG to complete confirmatory work and seek the necessary regulatory approvals from the Ontario Energy Board (OEB) and Canadian Nuclear Safety Commission (CNSC) to enable ongoing operation of the Pickering Generating Station up to 2024. At that point, all Pickering units would be shut down and decommissioned.

The government approval was based on promising early technical and economic assessments by OPG as well as IESO which indicated the potential for net savings for Ontario's electricity consumers as a result of operating Pickering up to 2024.

Operating Pickering up to 2024 would also ensure that the province has a reliable, affordable and emission-free source of "round the clock" power during the Darlington and initial Bruce refurbishments.

Ongoing operation of Pickering would protect 4,500 jobs across Durham region, avoid 8 million tonnes of greenhouse gas emissions, and save Ontario electricity consumers up to $600 million.

OPG will need to satisfy the CNSC of Pickering's ability to operate safely up to 2024.

CNSC will not allow Pickering to operate to 2024 unless it is satisfied that safety of the public and the environment can be assured during this period.

OPG will seek final government approval to proceed with ongoing Pickering operating up to 2024 after receiving the necessary regulatory approvals.

Deputy Imbrogno will now expand on the role of Pickering in our electricity system.

Deputy Minister Response

Pickering plays an important role in meeting our energy needs.

Pickering Nuclear Generating Station is our first commercial nuclear power plant facility. Pickering nuclear units were put into service between 1971 and 1986. Two of the eight nuclear reactors at Pickering have since been permanently shut down and are currently undergoing decommissioning.

Pickering currently provides 3,094 megawatts of system capacity through its six operating nuclear units and plays a key role in maintaining Ontario's grid reliability.

Pickering supplies approximately 14% of Ontario's electricity, enough to serve a city of approximately 1.5 million.

2013 LTEP assumed that Pickering would operate until 2020 before being shut down. This is based on the CNSC's approval that the key reactor components (i.e., reactor pressure tubes) would be able to safely operate through that period.

Since then, OPG has undertaken technical analysis and assessments on the condition of key equipment and expressed confidence in Pickering's ability to safely operate to 2024.

Steen Hume, Assistant Deputy Minister of the Energy Supply Policy, will provide more detail about the regulatory approvals required and the benefits of ongoing operation of Pickering up to 2024.

ADM Response

Like all nuclear power plants in Canada, the Pickering Nuclear Generating Station is licensed by the CNSC, which regulates the use of nuclear energy and materials to protect health, safety, security and the environment through the Federal government's *Nuclear Safety and Control Act*.

CNSC licensing of nuclear power plants is comprehensive and covers topics such as radiation protection, emergency preparedness, environmental protection and equipment fitness for service.

CNSC continuously monitors all of Ontario's nuclear power plants, including Pickering, and ensures that they operate safely at all times. In 2016, Pickering received the highest safety rating – "Fully Satisfactory" – from the CNSC for the second year in a row.

Pickering's current operating licence expires in August 2018.

On August 28, 2017, OPG submitted its Pickering operating licence renewal application along with supporting documentation to the CNSC for a 10-year period, from

September 1, 2018 to August 31, 2028. The licence renewal application encompasses three phases of operational activities over the proposed licence term:

1. Continued commercial operation until 2024;

2. Stabilization phase (post-shutdown defueling and dewatering); and

3. Early period of a Safe Storage phase.

OPG has undertaken work in three technical assessment areas to support the Pickering licence application:

- Periodic Safety Review (PSR) is being performed to evaluate the extent to which Pickering conforms to modern codes, standards and practices. Potential safety enhancements will then be assessed to identify the alternatives that can be reasonably and practicably implemented to improve safety during the four years of additional operations.

- Fuel channels (key reactor core components) are currently assumed to be the life-limiting component of the Pickering units. Technical work on the fuel channels' fitness-for-service will continue through the Fuel Channel Life Assurance Project and ongoing inspections. The work program consists of analysis and research and development work to assess fuel channel fitness-for-service for the planned operating durations and to develop methods for assuring that each Pickering unit can meet its target service life.

- Component Condition Assessments are being performed for other major components to validate their fitness-for-service to the planned operation dates.

OPG expects to spend an additional $307 million between 2016 and 2020, in order to enable ongoing Pickering operation up to 2024. As a rate-regulated asset, all costs to enable ongoing Pickering operation will be subject to review and approval by the OEB through a public and transparent process to ensure they are prudently incurred.

The estimated cost of the additional power from Pickering between 2020 and 2024 is $65 per megawatt-hour (MWh), lower than the average price of electricity generation in Ontario, which in 2015 was $92 per MWh.

The net savings of up to $600 million to Ontario electricity ratepayers from Pickering operation up to 2024 would be achieved by:

- Reducing the need to construct and operate more expensive replacement natural gas-fired generation, as well as reducing electricity imports, during the Darlington and initial Bruce refurbishments;
- Deferring transmission grid reinforcements in the Greater Toronto Area (GTA) that would be necessary once Pickering shuts down permanently;
- Deferring costs for Pickering station closure (e.g., severance costs for 4,500 employees); and
- Deferring expenditures for Pickering station decommissioning.

In addition to providing savings for ratepayers, reducing our reliance on gas-fired generation by using emission-free Pickering generation would avoid the 8 million tonnes of greenhouse gas emissions up to 2024 as mentioned by the Minister.

Support for First Nations

Preamble: I have also heard that as part of the Fair Hydro Plan, there were measures introduced to help First Nations customers out with the cost of their delivery charges.

Q15: Could you please expand on what this program does, and how it will provide relief for First Nations who live on reserve?

Response

The FNDC provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs). For those First Nations residential customers served by an LDC that are charged a bundled rate and do not have a delivery charge, we are providing a credit equal to the monthly service charge. The Ontario Energy Board estimates that the First Nations Delivery Credit will provide residential customers an average monthly benefit of $85 (or $1,020 per year).

In total, there are about 21,500 on-reserve First Nations residential customers served by LDCs who may be eligible. The distribution rate relief provided through the First Nations Delivery Credit (FNDC) will offset potential rate increases, if any, approved by the OEB for these customers.

Natural Gas Grant Program

Preamble: We know that when people heat their homes with electricity, their bills can be significantly higher in the winter. That's why access to natural gas is so important. Yet still, I sometimes hear stories from constituents across the province that have a tough time getting connected to natural gas. For some, the cost is a significant factor.

Especially some rural and remote communities have difficulty getting connected.

Q16: Could you please expand on what the government is doing to expand natural gas access to rural and remote communities?

Minister Response

In April 2017, the government launched the new Natural Gas Grant Program to facilitate the expansion of natural gas service into areas of the province that currently do not have access to natural gas.

The Natural Gas Grant Program is a $100 million initiative, part of the province's $31.5 billion *Moving Ontario Forward plan*, and is led by the Ministry of Infrastructure (MOI), with support from the Ministry of Energy and the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA).

The Natural Gas Grant Program will assist communities in gaining access to natural gas and support natural gas expansion projects with economic development potential.

I'd ask that my Deputy Minister Serge Imbrogno to expand on the Natural Gas Grant Program.

Deputy Minister Response

Ontario is expanding access to natural gas for communities that do not currently have service, including those in rural and northern Ontario and First Nations communities. Natural gas is an important heating source in Ontario and can be cheaper than alternative sources such as propane, heating oil and electricity.

Ontario's Natural Gas Grant Program will support natural gas expansion projects in municipalities, First Nations and unincorporated areas. Projects to expand natural gas pipelines as well as liquefied or compressed natural gas infrastructure are eligible.

The application window for the Grant Program closed on July 31, 2017. MOI is currently reviewing all applications for funding.

Natural gas expansion in Ontario is overseen by the Ontario Energy Board (OEB) and managed by private sector natural gas distribution companies.

I will now ask my Assistant Deputy Minister to provide additional details on the Natural Gas Grant Program.

ADM Response

Ensuring affordable sources of energy are available to more rural and northern communities is a key part of Ontario's energy plan. Natural gas access can help stimulate the economy by attracting new industry to Ontario, making commercial transportation more affordable, benefiting Ontario's agricultural producers and providing consumers with more energy choices.

MOI's inter-jurisdictional analysis of the Natural Gas Grant Program shows Ontario in a unique position in terms of the size and scope of provincially administered natural gas expansion programs:

- Alberta, allocates funding to a natural gas umbrella organization, the Federation of Alberta Gas Co-ops, which oversees the expansion of natural gas service to rural communities; and
- In Saskatchewan and Manitoba, provincial energy corporations provide loan programs to promote energy-efficient upgrades, including fuel switching to natural gas.

In April 2017, the government launched the new Natural Gas Grant Program to facilitate. The Natural Gas Grant Program has two separate application streams:

- Expansion Stream: Projects that are primarily aimed at converting residential dwellings to natural gas. A total of $70 million of funding is available for these projects.

- Economic Development Stream: Projects that will assist with connecting business to natural gas and benefit agri-businesses, rural Ontario, First Nations communities or unincorporated areas. For example, projects that will help connect farms, greenhouses, manufacturing facilities, mining operations, etc. A total of $30 million in funding is available to support these projects.

Applications to the Grant Program must be made by the natural gas distributor or supplier and have the written support of the respective municipality, First Nation or unincorporated area. Property owners cannot apply for funding under the Natural Gas Grant Program.

MOI established a review process that utilizes set criteria to determine the projects that will benefit most from access to the grant funds, and prioritizes approvals accordingly. Approvals under the Grant program will also be conditional on the project receiving all necessary approvals from the Ontario Energy Board (OEB).

Consistent with the OEB's efforts to encourage competition, multiple applications to provide service to the same project area by different distributors or suppliers are acceptable under the Natural Gas Grant Program. Where there are competing grant applications for the same community, grant funding will only be provided to the project approved by the OEB.

The application window for the Grant Program closed on July 31, 2017.

Applications and supporting documentation are being assessed by technical reviewers from Infrastructure Ontario, MOI, OMAFRA and ENERGY. The selected projects will then require Ministerial approvals.

Natural Gas Grant Program Guidelines

All projects under the Natural Gas Grant Program must be for new connections or increased volumes of natural gas. Prospective connections to new residential or commercial developments that have yet to be built are excluded.

Prospective connections, such as for the attraction of new business and investments, may be included under the Economic Development Stream with appropriate supporting evidence showing when these connections would occur and how they would benefit the area.

The Natural Gas Grant Program funding may only be used towards:

- Capital projects to build new natural gas pipelines or compressors and other related capital works; and

- Capital projects to build liquefied or compressed natural gas infrastructure, including pipelines, compressors, liquefaction facilities, re-gasification facilities, storage facilities and other related capital works.

However, it should be noted that operational and maintenance costs and the cost of purchasing gas are not eligible for funding under the Natural Gas Grant Program.

Applications will only be considered when Municipalities and First Nations participate in the following manner:

- Make a financial contribution towards project costs. The contribution should be, at minimum, equivalent to the property tax (or other levies in the case of First Nations) that would be recovered on the new infrastructure being built for a period of 10 years. How this contribution will be made (e.g. up front or over time, through municipal loans, etc.) is up to the discretion of the municipality or the First Nation in consultation with the natural gas distributor or supplier. Alternatively, municipalities or First Nations may provide evidence either separately or as part of the application to explain why making such a contribution is not feasible.

- Provide a supporting council or band council resolution. The resolution must, at minimum indicate:

    - The municipality or First Nation is supportive of the project to provide natural gas access to their jurisdiction;

    - The municipality or First Nation are willing to make a financial contribution to the natural gas expansion project should it be approved by the Ontario

Energy Board. The contribution would be, at minimum, equivalent to the property tax that would be recovered on the new natural gas infrastructure being built for a period of 10 years beginning from the time that property taxes first become due; and

- Municipalities and First Nations are expected to estimate the amount of property taxes that would be recovered over ten years for the purposes of completing the application form but are not required to specify this amount as part of the municipal or band council resolution since the actual amounts may vary.

- Finally, for applications under the Economic Development Project Stream only, municipalities and First Nations must provide supporting evidence for economic development benefits that natural gas access will bring to the community and/or region. Municipalities and First Nations must have worked with the natural gas distributor or supplier to include this information in the application form. The natural gas distributor or supplier must enter into a contractual agreement with municipalities and First Nations that were making contributions to the natural gas expansion project.

Evaluation Criteria

There are two separate project streams in order to ensure the Natural Gas Grant Program supports both improved access to natural gas as well as economic development in communities. Each has specific evaluation criteria.

In Expansion Stream, the evaluation criteria include:

- Cost-Effective Access: Projects will be assessed based on the number of new connections that are made possible relative to the amount of grant funding requested; and

- Energy Affordability: Projects will be assessed based on how much the community is currently paying in annual heating costs.

In the Economic Development Stream the evaluation criteria include:

- Economic Development: The expected economic benefits to businesses (e.g., agriculture, forestry, mining, manufacturing etc.) that support rural Ontario, First Nations or unincorporated areas. This could also include benefits to registered farming businesses and/or agri-businesses including grain elevators, feed manufacturing facilities and crop input supply businesses located anywhere in Ontario; and

- Energy Cost Savings: Expected energy cost savings to businesses with greater consideration expected for those projects that accommodate a higher density of connections to the pipeline (e.g., clusters and collaborative ventures such as business parks or corridors).

Additional criteria that both Streams are evaluated against include:

- Project Revenues and Customer Engagement: The extent to which various rate options were considered and whether the proposed rate(s) reflects feedback from the community being served;

- Greenhouse Gas Emissions: The impact the projects will have on reducing greenhouse gas emissions; and

- Partnerships and Innovation: How the projects leverage partnerships and innovative approaches to make the undertakings more economical (i.e., lower project costs or improve project revenues) or provide better outcomes.

- Geography: Additional consideration will be given to projects that are in northern areas of the province or located within First Nations Reserves.

Regulation of Natural Gas Expansion In Ontario

The Ontario Energy Board (OEB) oversees expansion of the natural gas network in the province, which typically includes three elements:

- Municipal Franchise Agreement (MFA) and Certificate for Public Convenience and Necessity: Securing the approval to serve an area of the province;

- Leave-to-Construct Approval: Securing approval to construct facilities that meet certain size and cost criteria; and

- Rate Setting: Securing approval to charge customers for regulated services.

During a nine-day oral hearing from May 5-13, 2016, the OEB heard evidence from 28 interested parties, including customer groups, environmental organizations, municipalities, First Nations, industry associations and utility companies. The OEB also received 24 written comments from interested parties by the July 2016.

In November 2016, the Ontario Energy Board (OEB) introduced new rules for natural gas expansion in the province when it issued its decision on natural gas expansion entitled *Generic Proceeding on Community Natural*

Gas Expansion

Under the new rules, natural gas distributors may implement stand-alone rates or surcharges for expansion projects to new areas to recover costs. Previously, distributors had to charge the same rates to all customers in the same rate class. This limited the ability to expand, particularly into rural and remote areas which face higher expansion costs.

The overall intent of the community expansion proceeding was to develop a regulatory framework to support the expansion of infrastructure necessary to provide natural gas to communities that would otherwise not receive natural gas service.

The OEB's decision will also encourage competition between interested parties for the provision of lower cost natural gas service to new communities. Under the new rules,

the OEB will consider proposals from competing distributors or suppliers to service the same community. In situations where there is competition to serve a new community, the OEB will first evaluate the proponents' leave-to-construct and rate-setting plans.

The Natural Gas Grant Program is complementary to these new rules introduced by the OEB. Under the Grant Program, projects to build new natural gas infrastructure must utilize stand-alone rates or surcharges to recover capital costs to lower the net grant funding required.

Recent OEB Decisions on Natural Gas Expansion

In August 2017, the Ontario Energy Board (OEB) released its decision approving an application by Union Gas Limited seeking approval of a Community Expansion Program to the following unserved areas:

- Kettle and Stoney Point First Nation and Lambton Shores; and
- Milverton, Rostock and Wartburg.

This decision demonstrated the significance of the new regulatory framework announced in the Generic Proceeding decision. Union will use a volumetric-based "System Expansion Surcharge" (SES) applied only to those customers residing in the new expansion area. The expansions do not rely upon additional funding from the Natural Gas Grant Program.

The System Expansion Surcharge (SES) will be community-specific, for a defined period of time not to exceed 40 years towards recovery of the cost of the projects. It will be reviewed by the Ontario Energy Board (OEB) after 10 years from the start of its implementation to ensure that its forecasted costs remain on track to be appropriately recovered within the remaining timelines.

The surcharge rate for all communities will be 23 cents per cubic metre, and the approved SES term will be applied to customers attaching to any future extensions of the pipeline system. The SES will appear as an extra line item on each expansion area customer's monthly bill along with the current gas bill line items.

OEB's August 2017, decision also approved expansion to the Delaware Nation of Moraviantown First Nation conditional on receiving funding from the Natural Gas Grant Program. OEB deferred its decision on expansion to Prince Township pending negotiations between Union and Batchewana First Nation of Ojibways.

Ontario's Natural Gas Grant Program is supporting natural gas expansion projects in municipalities, First Nations and unincorporated areas.

Ontario is expanding access to natural gas for communities that do not currently have service, including those in rural and northern Ontario and First Nations communities. Natural gas is an important heating source in Ontario and can be cheaper than alternative sources such as propane, heating oil and electricity.

FW_ By Friday afternoon - SCOPA_QA_Friendly_ENERGY(2).pdf

From: Lightbody, Ava (ENERGY)
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY
Date: January 25, 2018 1:11:57 PM

Hi Tim,

For your review, a draft response to our SCOPA Friendly Q, pulled from AG QA and Estimates material. The request asked for lengthy.
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA friendlys\SCOPA_QA_Friendly_ENERGY.docx

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: January 24, 2018 10:38 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY

Hi Guys –
We're going to move ahead on prep for Public Accounts on Chapter 2 of the AG report (I'll also be sending out the prelim pieces for Chapter 3 prep a little later). We've been asked to prep the attached 3 friendly Qs. IESO and OPG will tackle questions 2 and 3, but we're on the hook for a lengthy (DM needs 20 mins of content) response to Q1.

Looking to have this back by Friday afternoon.

HC

FW_ By Friday afternoon - SCOPA_QA_Friendly_ENERGY.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: By Friday afternoon - SCOPA_QA_Friendly_ENERGY
Date:	January 24, 2018 10:38:01 AM
Attachments:	SCOPA_QA_Friendly_ENERGY.docx

Hi Guys –

We're going to move ahead on prep for Public Accounts on Chapter 2 of the AG report (I'll also be sending out the prelim pieces for Chapter 3 prep a little later). We've been asked to prep the attached 3 friendly Qs. IESO and OPG will tackle questions 2 and 3, but we're on the hook for a lengthy (DM needs 20 mins of content) response to Q1.

Looking to have this back by Friday afternoon.

HC

SCOPA_QA_Friendly_ENERGY_1.pdf

Ministry of Energy – Proposed Friendly Questions:

1. To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?

   And, why is the Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

DRAFT

FW_ By Wednesday at 3 pm -Rate Mitigation Imple...(1).pdf

From:	Yordi, Samer (ENERGY)
To:	Smith, Mike (ENERGY); Zade, Ryan (ENERGY); Singh, Inayat (ENERGY); Sud, Manu (ENERGY)
Cc:	Chander, Sunita (ENERGY); Talwar, Shruti (ENERGY); Smith, Brett (ENERGY)
Subject:	FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting
Date:	November 20, 2017 7:02:00 PM
Attachments:	Action Items_ Nov 1_v2.docx 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx 20171109_OFHP_Update_for_Minister_EPE_ Clean.pptx 2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX

Hi everyone,

Please see Hilary's email below.

Thanks,
Sam

From: Cox, Hilary (ENERGY)
Sent: November 20, 2017 6:33 PM
To: Yordi, Samer (ENERGY); Edwards, Matthew (ENERGY); Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF)
Subject: FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting

Hi All –
Please use attached action items and OFHP matrix from the last OFHP morning group meeting to update for this Thursday's group. I've also attached the OFHP update for Minister from last week as that is likely even more recent than these materials.
We'll also need to update the business issues list per OFHP Minister's update and next steps. Will get back to everyone tomorrow with who should update on what business issues.

Appreciate this back by Wednesday at 3 pm please.

HC

Action Items_ Nov 1_v2.pdf

Action Items
November 1, 2017

<u>Agenda</u>

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
        - Rating agencies (i.e., DBRS) would like to interview IESO as part of the ratings process
        - Energy to prepare a letter to OPG to clarify that although the FAA Letter includes negative amounts, OPG can still incur charges (e.g., interest). Alternatively, this matter could be address through regulation
        - IESO meeting with OPG and dealers tomorrow to finalize outstanding issues (e.g., agreement, security)
        - OPG Board meeting on Novermeber 15 to approve critical business items
        - By the end of November IESO has to post its quarterly financial statements up to the end of September, which will include a regulatory asset of approximately $800 million
        - OFA has intercept letter for ENERGY and IESO to sign for enhanced Line of Credit
    - Provincial Protection and Assurances Agreement (OFA / OPG)
        - OFA working with OPG, MOF, ENERGY, Blakes and Tories to finalize agreement by the end of the week
    - Commercial Agreement (OPG/ IESO)
        - Work ongoing between OPG and IESO

    - OPG's Financing Plan (OPG)
        - OPG to share draft with Ministry as soon as possible. OPG expects to have draft document by the end of next week
        - OPG expects to go to market by end of November – to include an offering memorandum, which goes to identified investors. OPG to prepare a process "road map" that outlines the diffent steps of going to market
        - Ministry to determine whether a NR or statement would need to be issued about a quiet period while OPG goes to market
        - Potential Technical Media briefing on OPG financing plan in early December – OPG to work on outline of deck
    - Regulatory Amendments (ENERGY)
        - To enable IESO to recove from the GA its carrying costs associated with the Letter of Credit
        - To the General regulation to address methodology for recovery in the event of default (i.e., acceleration) and potentially negative FAA amounts

        - Energy to prepare a Minister letter to OPG outlining the policy intent of proposed amendments and indicate that the ministry's plan to obtain approval of the ammendents at LRC on November 20 or Decemeber 11

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - Reg tracking to LRC in December for OESP
    - Affordability Fund (CRED)
        - Next Trustees meeting is November 2nd.

2017-10-27 OFHP Matrix - Week of Oct 31_Clean.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

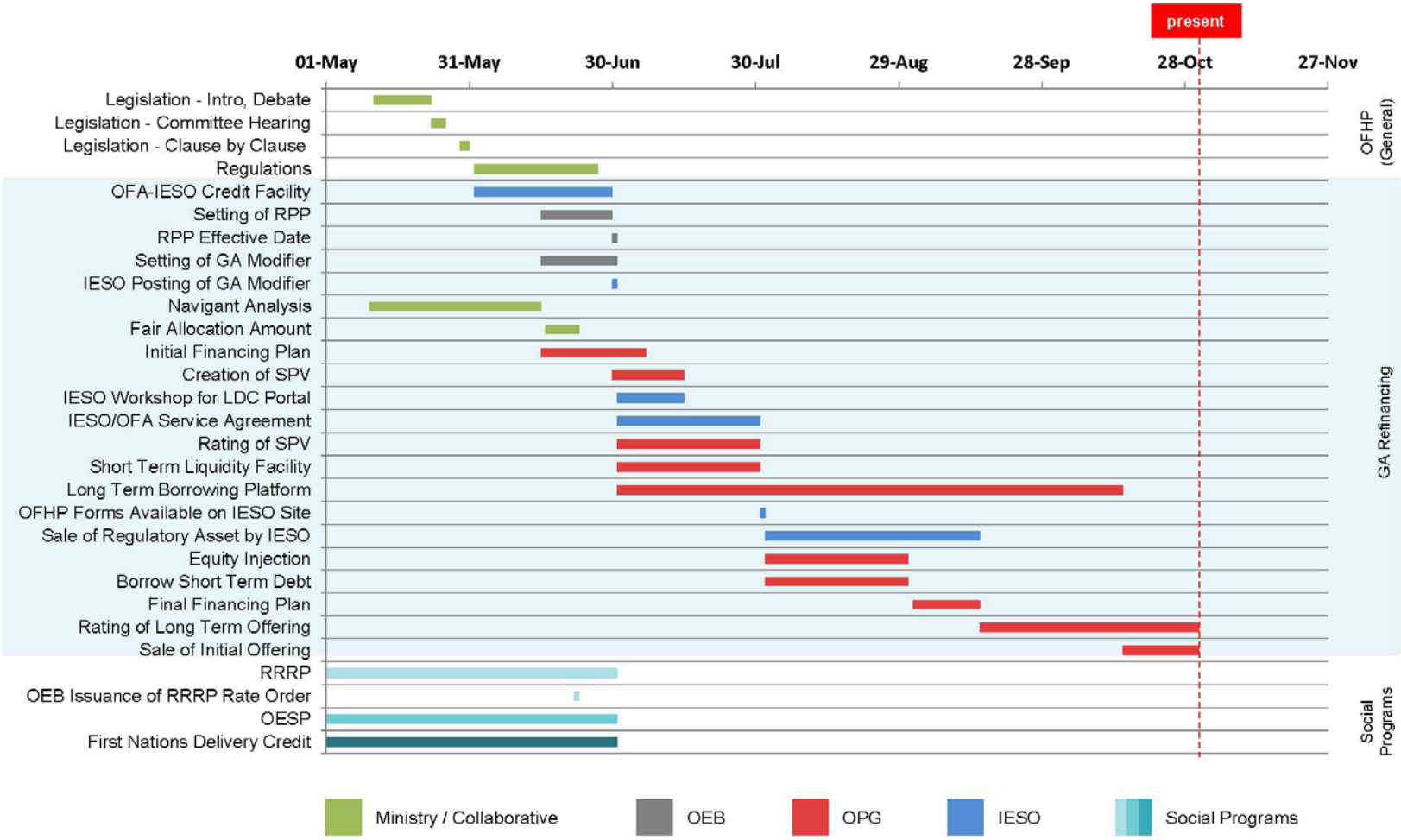
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Ontario

MINISTRY OF
ENERGY

Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from the reduction.

- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.

- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.

- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
  - GA Refinancing;
  - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
  - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables IESO to establish a variance account to record the deferral amounts from the difference between collections from current ratepayers and payment obligations to generators and conservation, and to create a regulatory asset as the Act provides IESO the right to recover the balance in the variance account.
  - The IESO can then sell the regulatory asset – the right to recover those deferred amounts from specified consumers in the future
  - OPG, as the Financial Services Manager (FSM), is authorized to establish one or more financing entities that may incur funding obligations to finance the purchase of the regulatory asset
  - A financing entity purchasing the regulatory asset would effectively finance IESO's shortfall in current rates not received from ratepayers.

- In order to support the establishment of a financing entity, facilitate ongoing funding requirements of GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors on finalizing the details for a number of business issues, including:
  - Amendments to O. Reg. 206/17 (General), made under the OFHPA, were required to enable OPG to establish and charge fees as FSM, and to define the role of the Ontario Energy Board (OEB) in reviewing and approving those fees. Amendments were signed by the Lieutenant Governor on November 1, 2017.
  - Included in these amendments were additional provisions in O. Reg. 206/17 to enable the recovery of FSM carrying costs during the moratorium period.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from IESO, the Financing Entity must borrow a portion of the funds from capital markets (planned to be 51%, with other financing to come from OPG and, indirectly, the Province).
  - OPG's financial advisors have indicated that without adequate protection against legislative, judicial and organizational risk, the debt would not be financeable or would result in higher financing costs, to be passed on to ratepayers.
- The Ministers of Energy and Finance have the authority to negotiate and enter into a protection agreement that supports the Financing Entity and prospective debt holders such that the Province would take over the funding obligations of the Financing Entity, under certain circumstances, including.
  - Actions of the Legislative Assembly that undermine the financing arrangement; i.e., repeal or amendment of the Ontario Fair Hydro Plan Act, 2017, or new legislation that adversely affect the Financing Entity
  - A court decision that declares the rights of the Financing Entity to recover amounts from ratepayers to be invalid or unenforceable
  - Changes to the organization, structure or operations of IESO or a change in the electricity market structure or operations that adversely affects the ability of the Financing Entity to recover amounts related to funding obligations.
- In the event the protection agreement is triggered, the Province will be required to pay the obligations of the Financing Entity including principal and interest payments on debt issued to date, any payments to derivatives counterparties and any outstanding payments to service providers.
  - The Province could potentially service the debt and other obligations and could replace OPG as the financial services manager.

Next Steps:

- Finalize the Change of Law Protection Agreement

2) Business Items – OPG Financing Plan / Market Activities

- Under the OFHPA, the Minister of Energy is required to regularly calculate the Fair Allocation Amount (FAA) to ensure a proper alignment of the allocation of the intergenerational costs and benefits for each of the next 60 six-month reference periods.
  - OPG, in its role as FSM, is to produce Financing Plans that would set out funding obligations for each reference period consistent with the FAA.
- On September 28, 2017, the Minister sent a letter to the OPG Board Chair setting out FAA and readjustment amounts (RAs). ENERGY and OPG exchanged data to support the amounts included in the Minister's letter.
  - For GA Refinancing to proceed as planned under the legislation, OPG needs to go to market so that the GA deferral can be funded. Until such time that this takes place, IESO must manage the reduction in GA received from electricity consumers.
- OPG has advised that additional amendments to O. Reg. 206/17 (General) are required to satisfy accounting requirements prior to proceeding to market.
  - Proposed amendments would set out an approach to appropriately manage a potential acceleration of debt repayment in the event of a default, including mitigating impacts on CEAs payable by specified consumers.
  - Additional proposed amendments would clarify the operation of O. Reg. 206/17, including a mechanism for the recovery of financing entity carrying costs after the moratorium period when the FAA remains less than the amount of such carrying costs.

Next Steps:

- OPG is expected to complete its Financing Plan in November and to proceed with the initial debt issuance in late November or December.
- The proposed amendments are expected to proceed to LRC on November 20, 2017.

2) Business Items – IESO Cost Recovery for Security Vehicle

- In order for OPG to market the debt, a security arrangement (e.g. a Letter of Credit or other similar credit enhancement tool) is required to backstop smaller Local Distribution Companies (LDCs) that would not be expected to have any or sufficiently sound credit ratings during the years in which CEAs are collected.
  - IESO has advised ENERGY that it requires a funding mechanism to recover costs associated with the security arrangement, including carrying costs and any default costs.
  - Note: the risk of LDC default is considered to be low. However, OPG advised regulatory amendments are necessary to provide security to the market should such a default occur.
- Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* have been developed in order enable amounts related to the security arrangement to be recovered through from consumers through the Global Adjustment (GA).
  - ENERGY consulted with IESO, OPG/Tory's and the OEB during the development of the proposed amendments.
  - In the event of an LDC default – resulting in CEAs not being recovered from the relevant LDC – the amounts related to uncollected CEAs would be recovered from specified consumers, as defined in the legislation, through the GA.

Next Steps:

- The proposed amendments are expected to proceed to LRC on November 20, 2017, packaged with the proposed amendments to O. Reg. 206/17.

2) Business Items – Equity Injections

- To purchase the regulatory asset from the IESO, an OPG financing entity would be established and borrow funds from the following:
  - Capital markets (51%); and
  - Subordinated OPG debt, financed through equity injections from the Province (44%) and OPG, financing from capital markets (5%).

- OPG will require equity injections on an ongoing basis in order to provide the 44% share of financing for the financing entity to acquire the regulatory asset from IESO and keep its capital structure in line, and will require flexibility in order to issue shares to the Province as needed, under a share subscription agreement.

- The Ministry of Energy will be responsible for seeking approval for the investment envelope each year and managing the share subscription arrangement with OPG.
  - On a periodic basis, OPG will send a notice of share subscription to the Ministry of Energy, requesting a certain amount of equity based on the amount of the regulatory asset it plans to purchase in a fiscal year; the Ontario Financing Authority will flow the funds.

Next Steps:

- OPG and the Ministry of Energy Master Subscription Agreement and will proceed to execute in the coming weeks
- The Ministry of Energy will work with the OFA to ensure a mechanism is in place to flow the funds within the required timeframes after the request is made by OPG

2) Business Items – Subordinated Debt Agreement

- OPG intends to lend the equity injection from the Province to the Trust by way of subordinated debt and junior subordinated debt

- OPG proposes that OPG, the Fair Hydro Trust and the OFA will enter into a subordinated debt loan agreement, which outlines the terms of the subordinated debt.

- OPG has proposed that interest rates on the subordinated debt be established as follows:
  - During the Trust short term financing period, when bank facilities are used as funding vehicles, the interest rate on subordinated debt will be the sum of (1) funding rate on senior debt, and (2) additional spread margin of [xx], reflecting the credit rating difference between the senior and subordinated debt.
  - At the time when senior bonds are being issued to take out (term out) the short term financing, OPG will seek indicative coupon rates on the subordinated debt from dealers, reflecting the sum of underlying Government of Canada yield of equivalent term and the appropriate credit spread. The average indicative coupon rate from dealers will be calculated and set as the subordinated debt rate.

Next Steps:

- OPG to incorporate the Province's comments into the next draft of the Subordinated Debt Agreement, which is tracking to be finalized by the end of November (TBD).

2) Business Items – PILs Exemption

- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager, will be a trust (Trust).

- The Trust would be subject to tax under the *Income Tax Act* (Canada) and the Ontario *Taxation Act, 2007*.

- The beneficiary of the Trust will be a corporation (Subco) that will be directly or indirectly wholly-owned by OPG.
  - Subco, as a subsidiary of OPG, would be exempt from federal and provincial corporate taxes payable by private sector companies. Instead, Subco would be subject to tax under the payments in lieu of taxes (PILs) regime under the *Electricity Act, 1998 (EA),* and would pay PILs to the Ontario Electricity Financial Corporation (OEFC);
  - PILs are used by the OEFC to help pay down ~~its~~ debt and other liabilities – OEFC is the legal continuation of the former Ontario Hydro.

- In order to mitigate the cost to ratepayers, a recommendation will be made to the Minister of Finance ~~t~~o make a regulation under the EA that would exempt Subco from PILs on income received by Subco as beneficiary of the Trust.

- Should OPG, as Financial Services Manager, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will consider making similar recommendations to the Minister of Finance.

Next Steps:

- Letter to OPG provide comfort that Subco will be exempt from PILs on income received as beneficiary of the Trust.

- The Ministry of Finance is working with OPG on a draft regulation, which is intended to be made by the Minister of Finance in the Fall of 2017.

3) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:

1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit**) made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.

2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers**) made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.

3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).

4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.

5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.

6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.

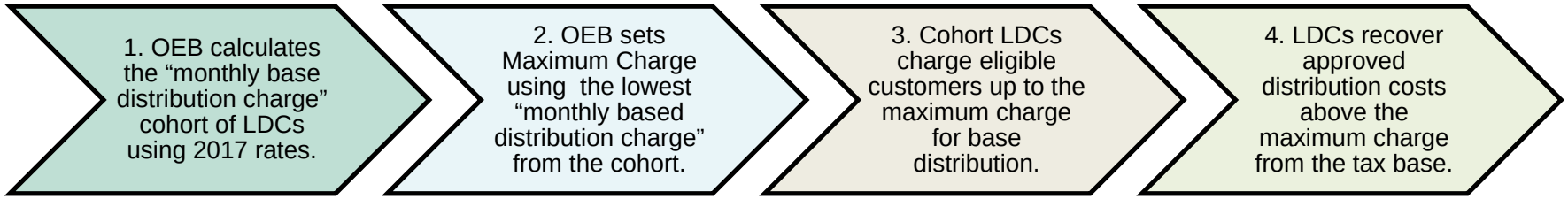
7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a “reserve”
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as “reserve”, “member of a band”, are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
  - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
  - Ontario and non-status First Nation groups).
  - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at $36.43/month**.** The maximum charge will be updated at least once annually going forward.
  - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from $1.66/month for the average customer to $0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
  - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
  - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
  - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients are not enrolled).
  - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
  - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base.. This is will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities/responsibilities to the Ministry
  - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry is working with the OEB and will continue to do so over the next several months to transition OESP administration to government.
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
  - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
  - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
  - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.

- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.

- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.

- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act*, 2017 (OFHPA) and the *Ontario Energy Board Act*, 1998 to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
  - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
  - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
  - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for $00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
  - Enhancing the customer experience (e.g., providing more useful information);
  - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
  - Consolidating the regulatory framework; and
  - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
  - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
  - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

Pre-July 1, 2017
OFHP Bill Inserts

- Requirement for LDCs to issue "8% rebate" envelopes and include "8% rebate" on-bill messaging revoked from O. Reg. 364/16.
- LDCs voluntarily issued OFHP bill inserts in June ahead of finalized OFHP regulations (bill inserts printed by ENERGY).

July 1, 2017
OFHP Required Messaging

- OFHP regulations introduced requiring LDCs to comply with the following by July 1st:

1. Issue OFHP bill inserts on a quarterly basis for one year;
2. Include OFHP on-bill messaging;
3. Include a FNDC line item, where applicable; and
4. Remove outdated on-bill messaging (e.g., DRC).

- Hydro One exempted from specified OFHP invoicing requirements and O. Reg. 275/04.

Aug. – Oct. 2017
RAP Consultations

- ENERGY to convene a RAP Working Group including Hydro One, the EDA, the OEB, the Coalition of Large Distributors, as well as other LDCs and industry assoc.
- As part of this group, ENERGY to seek feedback on changes to bill presentment, regulatory reform, and billing system design.

Fall – Winter 2017
RAP Proposed Regulatory Amendments

- Following RAP consultations, ENERGY to introduce regulatory amendments to simplify bill presentment by the end of 2017. Hydro One to begin rolling out its redesigned electricity bills in Q4 2017.

Winter 2018 –
RAP Final Regulatory Framework

- New/amended invoicing regulations to become effective as of January 1, 2018.
- Hydro One expected to complete its roll-out of redesigned bills to its low volume consumers by Q2 2018.
- New regulations to include ample transition period for LDCs to adopt new regulatory invoicing requirements (e.g., 6 months – 1 year)

OFHP Key Milestones

2017 Sep, Oct, Nov, Dec — **2018** Jan, Feb, Mar, Apr, May, Jun

GA Refinancing

Sept. 29
- OPG Board Meeting to approve OFHP Items

- Rating Agency Process
- Nov. 20: Regulatory amendments to address accounting and commercial/financial requirements.
- Finalize other items to support first bond issuance:
  - PILs exemption;
  - Protection Agreement OIC; and
  - Sub-Debt Agreement.

- OPG Bond Issuance

Ongoing Financing
- OPG to purchase Regulatory Asset from IESO on monthly basis
- OPG to issue long-term bonds periodically
- Province to inject capital into OPG periodically as requested
- Regulatory amendments related to inflationary increases in years 3 and 4

Social Programs (FN Delivery Credit, OESP)

Sept. 18
- First full reimburse-ment request received from IESO

- FNDC LDCs sign up eligible customers
- Minister letter to OEB on cost forecasting

- PRRT Update
- Proclaim OEBA amendments to shift OESP to the tax base

- Hydro One Distribution Rate Application Oral Hearing and Adjudication (Decision timeline TBD by OEB)

- OEB to revise Maximum Distribution Charge

Affordability Fund

- LDC Engagement, Program Design to be finalized
- Program Launch
- Fund expected to be accessible to LDCs Through the PRRT process, report back to TBC/MBC on Affordability Fund in Fall 2017

Billing

- Research and Consultation
- LRC
- LDC Implementation

Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

Rate Mitigation Implementation Group
- ENERGY
- MOF (IGS)
- TBS (OPCD)
- OPG (CEO, CFO)
- IESO (CEO/CAO)
- OEB
- External Advisors (i.e., legal, accounting)

Weekly Ministry of Energy Meeting

GA Refinancing – Subcommittee
- ENERGY (ESP, SNAP, LSB)
- OPG (Finance, Legal)
- IESO (Planning, Settlements, Finance, Legal)
- OEB (RPP, Legal)
- MOF (IGS, OFA)
- TBS (OPCD)
- External Advisors (i.e., Legal, Accounting)

Support Programs (i.e., RRRP, OESP, First Nation) – Subcommittee
- ENERGY (SNAP, LSB)
- MOF
- TBS
- Hydro One (Settlements)

Affordability Fund – Subcommittee
- ENERGY (CRED, LSB)
- MOF (IGS, LSB)
- TBS (OPCD)
- Hydro One (Settlements, Legal)

ICI / Manufactures and SMEs – Subcommittee
- ENERGY(ESP, LSB)
- IESO (Settlements, Legal)

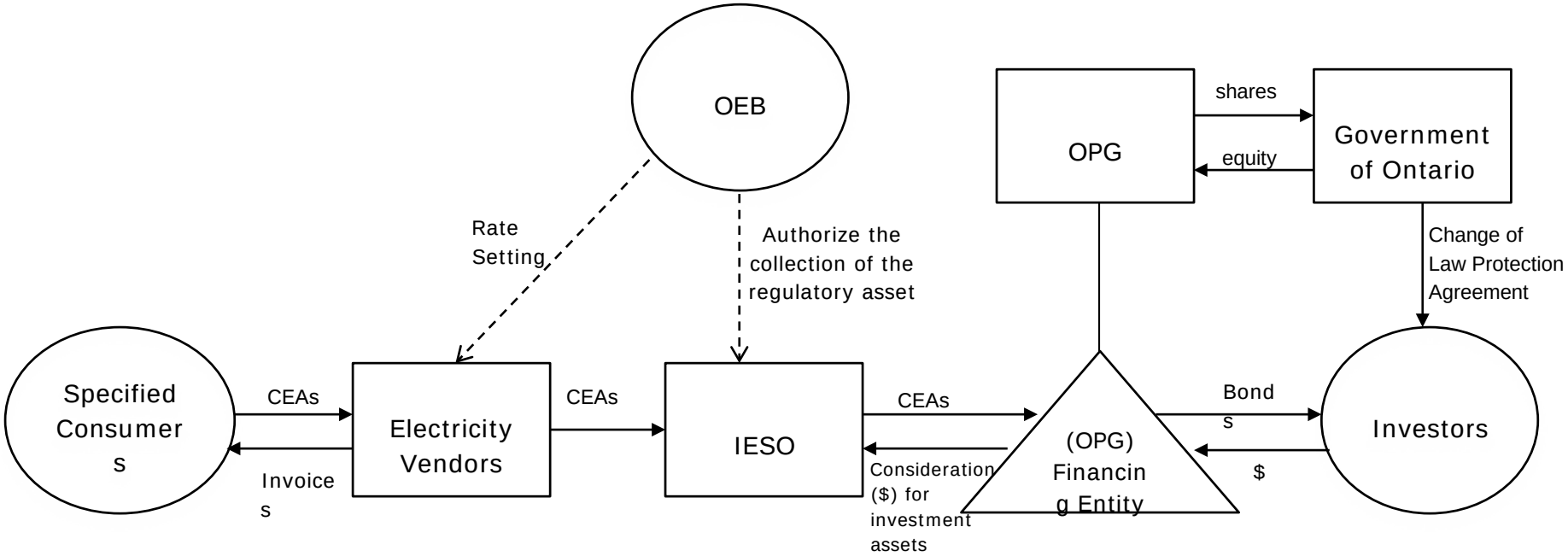
Manufactures and SMEs
- MEDG / Small Business
- MOF
- MOL

Tenants – Subcommittee
- ENERGY (SNAP, LSB)
- Housing
- MAG

Working Group – LDC
- ENERGY (ESP, CRED, SNAP, LSB)
  IESO (Settlements)
- LDCS (Settlements)
- EDA (Policy)

Affordability Fund Trust - Board of Trustees
- 3 electricity distributors
- 2 social service agencies
- 1 (non-voting) government

Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are “clean energy adjustments”

2017 Outstanding Business Issues - Week of O.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

FW_ By Wednesday at 3 pm -Rate Mitigation Imple....pdf

From:	Cox, Hilary (ENERGY)
To:	Yordi, Samer (ENERGY); Edwards, Matthew (ENERGY); Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF)
Subject:	FW: By Wednesday at 3 pm -Rate Mitigation Implementation Meeting
Date:	November 20, 2017 6:33:00 PM
Attachments:	Action Items_ Nov 1_v2.docx 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx 20171109_OFHP_Update_for_Minister_EPE_ Clean.pptx 2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX

Hi All –

Please use attached action items and OFHP matrix from the last OFHP morning group meeting to update for this Thursday's group. I've also attached the OFHP update for Minister from last week as that is likely even more recent than these materials.

We'll also need to update the business issues list per OFHP Minister's update and next steps. Will get back to everyone tomorrow with who should update on what business issues.

Appreciate this back by Wednesday at 3 pm please.

HC

Action Items_ Nov 1_v2_1.pdf

Action Items
November 1, 2017

<u>Agenda</u>

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
        - Rating agencies (i.e., DBRS) would like to interview IESO as part of the ratings process
        - Energy to prepare a letter to OPG to clarify that although the FAA Letter includes negative amounts, OPG can still incur charges (e.g., interest). Alternatively, this matter could be address through regulation
        - IESO meeting with OPG and dealers tomorrow to finalize outstanding issues (e.g., agreement, security)
        - OPG Board meeting on Novermeber 15 to approve critical business items
        - By the end of November IESO has to post its quarterly financial statements up to the end of September, which will include a regulatory asset of approximately $800 million
        - OFA has intercept letter for ENERGY and IESO to sign for enhanced Line of Credit
    - Provincial Protection and Assurances Agreement (OFA / OPG)
        - OFA working with OPG, MOF, ENERGY, Blakes and Tories to finalize agreement by the end of the week
    - Commercial Agreement (OPG/ IESO)
        - Work ongoing between OPG and IESO

    - OPG's Financing Plan (OPG)
        - OPG to share draft with Ministry as soon as possible. OPG expects to have draft document by the end of next week
        - OPG expects to go to market by end of November – to include an offering memorandum, which goes to identified investors. OPG to prepare a process "road map" that outlines the diffent steps of going to market
        - Ministry to determine whether a NR or statement would need to be issued about a quiet period while OPG goes to market
        - Potential Technical Media briefing on OPG financing plan in early December – OPG to work on outline of deck
    - Regulatory Amendments (ENERGY)
        - To enable IESO to recove from the GA its carrying costs associated with the Letter of Credit
        - To the General regulation to address methodology for recovery in the event of default (i.e., acceleration) and potentially negative FAA amounts

        - Energy to prepare a Minister letter to OPG outlining the policy intent of proposed amendments and indicate that the ministry's plan to obtain approval of the ammendents at LRC on November 20 or Decemeber 11

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - Reg tracking to LRC in December for OESP
    - Affordability Fund (CRED)
        - Next Trustees meeting is November 2nd.

2017-10-27 OFHP Matrix - Week of Oct 31_Clean_1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

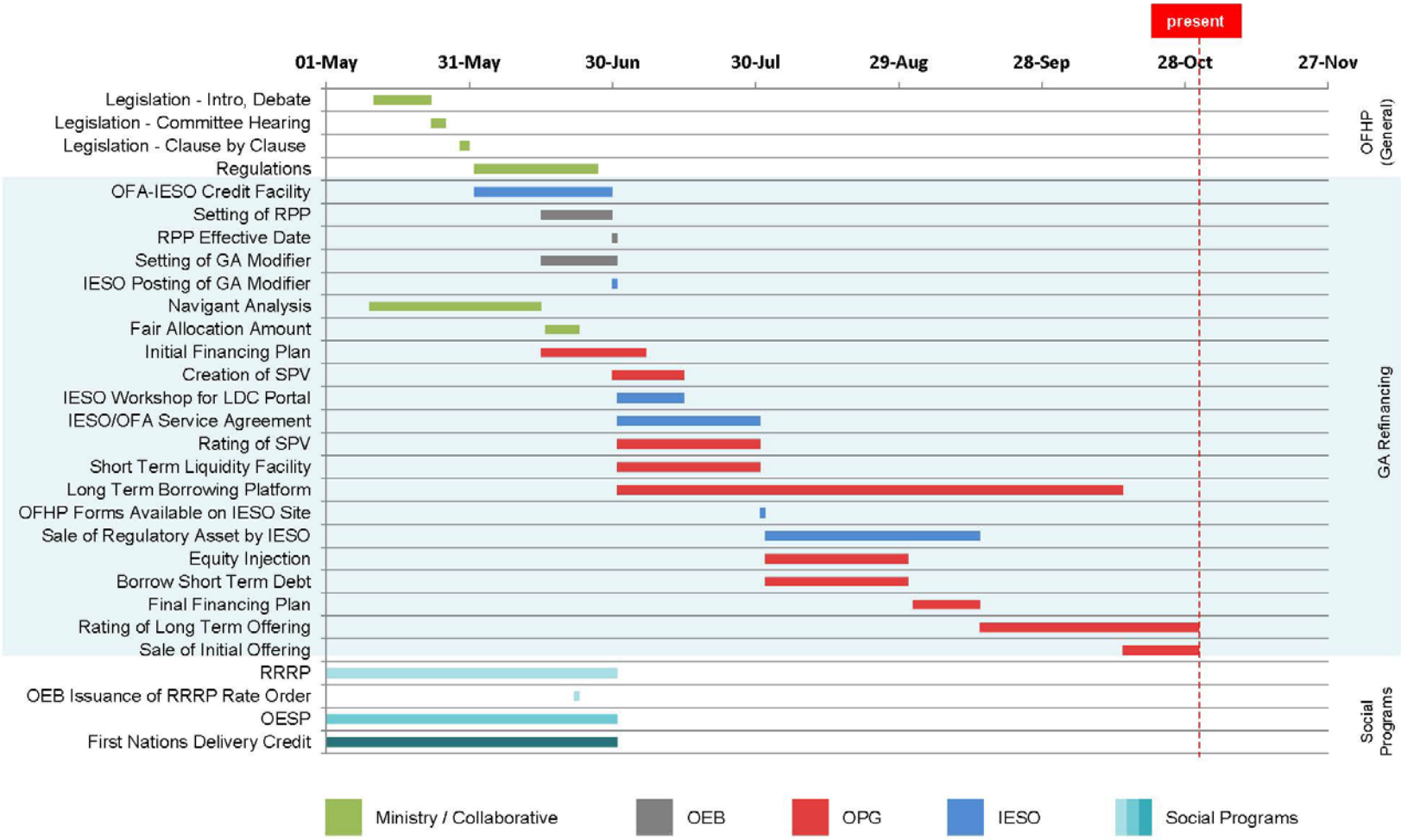
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Ontario

MINISTRY OF
ENERGY

Ontario's Fair Hydro Plan – Minister's Update

November 16, 2017

CONFIDENTIAL

Context

- On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (OFHP). Effective July 1, 2017, OFHP has lowered electricity bills by 25 per cent on average for residential electricity customers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from the reduction.

- The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced on January 1, 2017.

- OFHP also includes initiatives to reduce costs for low-income, rural/remote, and First Nations consumers, as well as measures to benefit larger consumers.

- Through the Rate Mitigation Implementation Group and subcommittees, the Ministry of Energy continues to work through implementation of the following OFHP initiatives:
  - GA Refinancing;
  - Electricity Support Programs (i.e., Rural or Remote Rate Protection, Ontario Electricity Support Program, First Nation On-Reserve Delivery Credit); and
  - The Affordability Fund.

1) Global Adjustment (GA) Refinancing

- The Ontario Fair Hydro Act, 2017, enables IESO to establish a variance account to record the deferral amounts from the difference between collections from current ratepayers and payment obligations to generators and conservation, and to create a regulatory asset as the Act provides IESO the right to recover the balance in the variance account.
  - The IESO can then sell the regulatory asset – the right to recover those deferred amounts from specified consumers in the future
  - OPG, as the Financial Services Manager (FSM), is authorized to establish one or more financing entities that may incur funding obligations to finance the purchase of the regulatory asset
  - A financing entity purchasing the regulatory asset would effectively finance IESO's shortfall in current rates not received from ratepayers.

- In order to support the establishment of a financing entity, facilitate ongoing funding requirements of GA refinancing and optimize ratepayer impacts, OPG and the Province have been working with ENERGY agencies, key ministries, and external advisors on finalizing the details for a number of business issues, including:
  - Amendments to O. Reg. 206/17 (General), made under the OFHPA, were required to enable OPG to establish and charge fees as FSM, and to define the role of the Ontario Energy Board (OEB) in reviewing and approving those fees. Amendments were signed by the Lieutenant Governor on November 1, 2017.
  - Included in these amendments were additional provisions in O. Reg. 206/17 to enable the recovery of FSM carrying costs during the moratorium period.

Next Step:

- Ongoing business issues (see next section).

2) Business Items – Change of Law Protection Agreement

- To purchase the regulatory asset from IESO, the Financing Entity must borrow a portion of the funds from capital markets (planned to be 51%, with other financing to come from OPG and, indirectly, the Province).
  - OPG's financial advisors have indicated that without adequate protection against legislative, judicial and organizational risk, the debt would not be financeable or would result in higher financing costs, to be passed on to ratepayers.
- The Ministers of Energy and Finance have the authority to negotiate and enter into a protection agreement that supports the Financing Entity and prospective debt holders such that the Province would take over the funding obligations of the Financing Entity, under certain circumstances, including.
  - Actions of the Legislative Assembly that undermine the financing arrangement; i.e., repeal or amendment of the Ontario Fair Hydro Plan Act, 2017, or new legislation that adversely affect the Financing Entity
  - A court decision that declares the rights of the Financing Entity to recover amounts from ratepayers to be invalid or unenforceable
  - Changes to the organization, structure or operations of IESO or a change in the electricity market structure or operations that adversely affects the ability of the Financing Entity to recover amounts related to funding obligations.
- In the event the protection agreement is triggered, the Province will be required to pay the obligations of the Financing Entity including principal and interest payments on debt issued to date, any payments to derivatives counterparties and any outstanding payments to service providers.
  - The Province could potentially service the debt and other obligations and could replace OPG as the financial services manager.

Next Steps:

- Finalize the Change of Law Protection Agreement

2) Business Items – OPG Financing Plan / Market Activities

- Under the OFHPA, the Minister of Energy is required to regularly calculate the Fair Allocation Amount (FAA) to ensure a proper alignment of the allocation of the intergenerational costs and benefits for each of the next 60 six-month reference periods.
  - OPG, in its role as FSM, is to produce Financing Plans that would set out funding obligations for each reference period consistent with the FAA.
- On September 28, 2017, the Minister sent a letter to the OPG Board Chair setting out FAA and readjustment amounts (RAs). ENERGY and OPG exchanged data to support the amounts included in the Minister's letter.
  - For GA Refinancing to proceed as planned under the legislation, OPG needs to go to market so that the GA deferral can be funded. Until such time that this takes place, IESO must manage the reduction in GA received from electricity consumers.
- OPG has advised that additional amendments to O. Reg. 206/17 (General) are required to satisfy accounting requirements prior to proceeding to market.
  - Proposed amendments would set out an approach to appropriately manage a potential acceleration of debt repayment in the event of a default, including mitigating impacts on CEAs payable by specified consumers.
  - Additional proposed amendments would clarify the operation of O. Reg. 206/17, including a mechanism for the recovery of financing entity carrying costs after the moratorium period when the FAA remains less than the amount of such carrying costs.

Next Steps:

- OPG is expected to complete its Financing Plan in November and to proceed with the initial debt issuance in late November or December.
- The proposed amendments are expected to proceed to LRC on November 20, 2017.

2) Business Items – IESO Cost Recovery for Security Vehicle

- In order for OPG to market the debt, a security arrangement (e.g. a Letter of Credit or other similar credit enhancement tool) is required to backstop smaller Local Distribution Companies (LDCs) that would not be expected to have any or sufficiently sound credit ratings during the years in which CEAs are collected.
  - IESO has advised ENERGY that it requires a funding mechanism to recover costs associated with the security arrangement, including carrying costs and any default costs.
  - Note: the risk of LDC default is considered to be low. However, OPG advised regulatory amendments are necessary to provide security to the market should such a default occur.
- Amendments to O. Reg. 429/04 (Adjustments Under Section 25.33 of the Act) made under the *Electricity Act, 1998* have been developed in order enable amounts related to the security arrangement to be recovered through from consumers through the Global Adjustment (GA).
  - ENERGY consulted with IESO, OPG/Tory's and the OEB during the development of the proposed amendments.
  - In the event of an LDC default – resulting in CEAs not being recovered from the relevant LDC – the amounts related to uncollected CEAs would be recovered from specified consumers, as defined in the legislation, through the GA.

Next Steps:

- The proposed amendments are expected to proceed to LRC on November 20, 2017, packaged with the proposed amendments to O. Reg. 206/17.

2) Business Items – Equity Injections

- To purchase the regulatory asset from the IESO, an OPG financing entity would be established and borrow funds from the following:
  - Capital markets (51%); and
  - Subordinated OPG debt, financed through equity injections from the Province (44%) and OPG, financing from capital markets (5%).

- OPG will require equity injections on an ongoing basis in order to provide the 44% share of financing for the financing entity to acquire the regulatory asset from IESO and keep its capital structure in line, and will require flexibility in order to issue shares to the Province as needed, under a share subscription agreement.

- The Ministry of Energy will be responsible for seeking approval for the investment envelope each year and managing the share subscription arrangement with OPG.
  - On a periodic basis, OPG will send a notice of share subscription to the Ministry of Energy, requesting a certain amount of equity based on the amount of the regulatory asset it plans to purchase in a fiscal year; the Ontario Financing Authority will flow the funds.

Next Steps:

- OPG and the Ministry of Energy Master Subscription Agreement and will proceed to execute in the coming weeks
- The Ministry of Energy will work with the OFA to ensure a mechanism is in place to flow the funds within the required timeframes after the request is made by OPG

2) Business Items – Subordinated Debt Agreement

- OPG intends to lend the equity injection from the Province to the Trust by way of subordinated debt and junior subordinated debt

- OPG proposes that OPG, the Fair Hydro Trust and the OFA will enter into a subordinated debt loan agreement, which outlines the terms of the subordinated debt.

- OPG has proposed that interest rates on the subordinated debt be established as follows:
  - During the Trust short term financing period, when bank facilities are used as funding vehicles, the interest rate on subordinated debt will be the sum of (1) funding rate on senior debt, and (2) additional spread margin of [xx], reflecting the credit rating difference between the senior and subordinated debt.
  - At the time when senior bonds are being issued to take out (term out) the short term financing, OPG will seek indicative coupon rates on the subordinated debt from dealers, reflecting the sum of underlying Government of Canada yield of equivalent term and the appropriate credit spread. The average indicative coupon rate from dealers will be calculated and set as the subordinated debt rate.

Next Steps:

- OPG to incorporate the Province's comments into the next draft of the Subordinated Debt Agreement, which is tracking to be finalized by the end of November (TBD).

2) Business Items – PILs Exemption

- It is currently contemplated that the first financing entity to be established by OPG, in its capacity as Financial Services Manager, will be a trust (Trust).

- The Trust would be subject to tax under the *Income Tax Act* (Canada) and the Ontario *Taxation Act, 2007*.

- The beneficiary of the Trust will be a corporation (Subco) that will be directly or indirectly wholly-owned by OPG.
  - Subco, as a subsidiary of OPG, would be exempt from federal and provincial corporate taxes payable by private sector companies. Instead, Subco would be subject to tax under the payments in lieu of taxes (PILs) regime under the *Electricity Act, 1998 (EA),* and would pay PILs to the Ontario Electricity Financial Corporation (OEFC);
  - PILs are used by the OEFC to help pay down ~~its~~ debt and other liabilities – OEFC is the legal continuation of the former Ontario Hydro.

- In order to mitigate the cost to ratepayers, a recommendation will be made to the Minister of Finance ~~t~~o make a regulation under the EA that would exempt Subco from PILs on income received by Subco as beneficiary of the Trust.

- Should OPG, as Financial Services Manager, establish other financing entities in the future for purposes of the OFHP, the Ministry of Finance will consider making similar recommendations to the Minister of Finance.

Next Steps:

- Letter to OPG provide comfort that Subco will be exempt from PILs on income received as beneficiary of the Trust.

- The Ministry of Finance is working with OPG on a draft regulation, which is intended to be made by the Minister of Finance in the Fall of 2017.

3) Social Programs – Regulations

- On July 1, 2017, a number of amended and new regulations, needed to implement the Fair Hydro Plan, came into force:

1. **Created a new Regulation (O. Reg. 197/17 First Nations Delivery Credit**) made under the *Ontario Energy Board Act, 1998* to enable the provision of a First Nations Delivery Credit.

2. **Created a new Regulation (O. Reg. 198/17 Distribution Rate-Protected Residential Consumers**) made under the *Ontario Energy Board Act, 1998* to enable the provision of enhanced distribution rate protection to full-time residential customers of prescribed LDCs.

3. **Amended O. Reg. 442/01(Rural or Remote Electricity Rate Protection)** made under the *Ontario Energy Board Act, 1998* to enable tax-based funds to support the provision of RRRP to Hydro One's low-density residential classified customers (R2).

4. **Created a new Invoicing Regulation (O. Reg. 196/17 Invoicing Requirements)** made under the *Ontario Fair Hydro Plan Act, 2017* to communicate Ontario's Fair Hydro Plan (OFHP), and its associated bill impacts, to consumers.

5. **Amended O. Reg. 275/04 (Information on Invoices to Certain Classes of Consumers of Electricity)** made under the *Ontario Energy Board Act, 1998* to remove the requirement for electricity vendors and USMPs to include informational messaging about the Debt Retirement Charge (DRC) in order to create more space on invoices for new OFHP messaging.

6. **Amended the O. Reg 363/16 (General)** under the *Ontario Rebate for Electricity Consumers Act, 2016* to provide clarity on how the proposed First Nations Delivery Credit should be treated with respect to the calculation of the 8% provincial rebate.

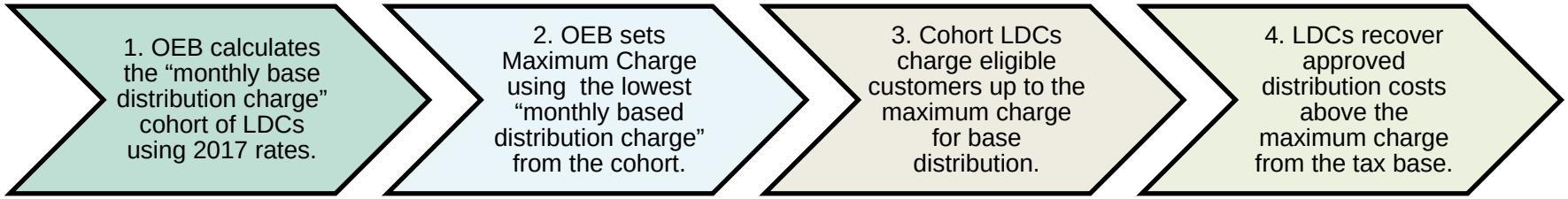
7. **Amended O. Reg. 314/15 (Ontario Electricity Support Program)** made under the *Ontario Energy Board Act, 1998* to enable MCSS staff to sign up social assistance clients for the Ontario Electricity Support Program.

3) First Nations Delivery Credit (FNDC)

- Section 79.4 of the OEB Act provides for a delivery credit to offset the costs that make up the delivery line for on-reserve consumers, paid for through funds appropriated by the Legislature. It also provides for regulation making authority to define who is an on-reserve consumer and what areas constitute a “reserve”
- The central piece of the FNDC regulation surrounds the eligibility criteria. The regulation limits eligibility to all First Nations residential on-reserve customers, regardless of whether the customer is seasonal or permanent. The definition of key terms, such as “reserve”, “member of a band”, are taken directly from the traditional meaning provided in the Indian Act.
- The 11 affected LDCs already have set processes in place to identify First Nations customers living on reserve based on their HST exemption status.
- Data reported by IESO reveals that over 20,000 customers are receiving FNDC – this was the target number pre-launch and reflects a successful rollout.
- The Ministry of Energy, in collaboration with the Chiefs of Ontario (COO), have crafted the policy in a manner which best reflects the needs and wishes of First Nations in Ontario.
  - Some leaders of First Nations that do not have reserve lands have expressed concern about being excluded from eligibility. (e.g. the Algonguins of Ontario and non-status First Nation groups).
  - Ontario and non-status First Nation groups).
  - COO has advocated for the expansion of the FNDC to include Band owned buildings. The Chiefs Committee on Energy continued to advocate for inclusion of band owned buildings at a meeting with Ministry staff on November 9, 2017.

3) Distribution Rate Protection – Implementation

- All eligible LDCs have indicated they are in position to provide distribution rate protection for electricity consumed on or after July 1st, 2017.
- The OEB followed the criteria in the new regulation (O. Reg. 198/17), as outlined in the chevrons below, to set the maximum monthly distribution charge.



- On June 22, 2017, the OEB released its decision and set the maximum monthly charge at $36.43/month**.** The maximum charge will be updated at least once annually going forward.
  - The regulation stipulates that each year the maximum monthly charge would be no lower than the previous year's maximum charge.
- Affected LDCs have implemented the required billing system changes, and benefits have begun to flow to consumers as July billing cycles are completed.
- The OEB's June 22 decision also lowered the RRRP regulatory charge to reflect the shift of legacy Hydro One R2 customer costs from the rate-base to the tax-base. The new RRRP charge (0.03¢/kWh) dropped from $1.66/month for the average customer to $0.24.
- Ministry staff are updating program costs projections. Hydro One's future distribution rates (currently before the OEB) are the top cost drivers. The Ministry is working with the OEB to consider how the OEB's cost forecast report (contemplated in O. Reg 198/17) will be provided to the Ministry.

3) Ontario Electricity Support Program Regulation (OESP)

- As part of the FHP, recent amendments to Section 79.2.2 of the OEBA gave the Ministry of Community and Social Services (MCSS) and the OEB authority to share personal information. This authority is required to align OESP delivery with other social assistance (SA) programs and automate OESP enrolment in a way that meets privacy requirements under the *Freedom of Information and Protection of Privacy Act, 1990*.
  - The purpose of this exercise is to increase OESP uptake, which is one of the approved activities in the FHP TB Minute (March 1, 2017).
- Implementation activities underway by MCSS:
  - In order to ensure all eligible SA clients receive OESP, as part of 2018-19 PRRT, MCSS is requesting the extension of the 20 Temporary FTEs approved in 2017-18 to 2018-19. Additionally, MCSS is targeting to report back to TB/MBC in December 2017 in order to acquire an additional 30 temporary FTEs to support call centre activities
  - MCSS has developed an MOU with the OEB on data sharing and respective roles / responsibilities for aligning OESP with SA program delivery. Data exchange has occurred, and MCSS has determined that only 20% of SA clients with electricity bills are currently enrolled (about 90,000 of the 113,000 clients are not enrolled).
  - MCSS has already begun to directly contact these clients by phone and letters. The call center is now operational, as of October 2017, and executing enrollment for SA clients. As of November 1, OESP posters and brochures are being distributed to SA offices.
  - Software system upgrades are underway to enable more streamlined automatic enrolment, but in the meantime, OESP applications will still be manual. The automatic enrolment solution is anticipated for early 2018-2019.

Next Steps:

- Provisions in s. 79.2 of the OEBA need to be proclaimed to shift the OESP from the rate-base to the tax-base.. This is will align with the depletion of the OESP variance account which is expected (projected for Feb/March 2018).
- The Ministry is also drafting amendments to the OESP regulation (O.Reg. 314/15) to support transition of program administration authorities/responsibilities to the Ministry
  - The OIC and regulatory package is scheduled for LRC on December 11.
- The Ministry is working with the OEB and will continue to do so over the next several months to transition OESP administration to government.
- Wet signature issue is being addressed. CRA approved OEB's proposed approach for electronic signature, and technical changes are underway. Once completed (expected Q1 2018) the MOU between CRA and MOF will be updated to reflect change.

4) Affordability Fund

- Ontario's Fair Hydro Plan established an Affordability Fund to help Ontarians who do not qualify for low-income conservation programs to make energy efficiency improvements to their homes, which could not otherwise be done without the support.
- The Affordability Fund, established through the tax base, is being administered by an independent Trust.

Next Steps:

- Consultations with electricity distributors were undertaken over summer 2017, including an August 1st session with over 30 electricity distributors participating. Feedback highlighted the importance of program design to be an iterative process and to be flexible to accommodate future changes.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an "Application for Support".
  - Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.
- The Trust, working with Hydro One, is currently negotiating program implementation agreements with electricity distributors, which outline program delivery guidelines and budgets.
  - The Trust expects to enter into agreements with interested distributions starting mid to late December 2017.
  - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In October 2017, through the 2018-19 PRRT process, ENERGY provided TB/MBC with a report back on the Affordability Fund including program application process, eligibility criteria, program monitoring and spending to date. ENERGY also stated that it will continue to assess the need for an additional funding request, considering Fund results and continued identified need.
- The Trust is expected to report Q3 2017-18 results to the Ministry in January 2018.

5) Industrial Conservation Initiative (ICI)

- On April 10, 2017, Ontario amended O. Reg. 429/04 to allow smaller manufacturers and greenhouses with an average monthly peak demand of greater than 500 kilowatts (kW) and less than 1 megawatt (MW) to participate in ICI, in addition to the consumers over 1 MW who were already eligible.

- ICI was previously expanded on January 1, 2017, when the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.

- Newly eligible ICI participants that opted in to the program began being billed as Class A (i.e., program participants) consumers for their July 2017 consumption.

- Prior to the expansions, there were approximately 300 ICI participants. According to data provided by IESO, approximately 1100 participants have opted in for the current adjustment period.

Next Steps:

- ENERGY is continuing to work with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) on outreach campaigns to promote awareness of the ICI program.

6) OFHP Billing Requirements

- The Ministry recently introduced new billing requirements under the *Ontario's Fair Hydro Plan Act*, 2017 (OFHPA) and the *Ontario Energy Board Act*, 1998 to support transparency and communication of the changes introduced by Ontario's Fair Hydro Plan (OFHP).
- These new billing requirements require electricity vendors and unit-sub meter providers (USMPs) to:
  - Include standardized informational messaging related to OFHP on all bills, per O. Reg. 196/17;
  - Accompany paper bills with a descriptive OFHP bill insert once per quarter, beginning with the first bill issued on or after July 1, 2017 until the first bill issued on or after July 1, 2018 (seasonal customers only to receive bill inserts semi-annually), per O. Reg. 196/17; and
  - Include a "First Nations Delivery Credit" as a visible line item on the bills of on-reserve customers and demonstrate the associated savings, as applicable, per O. Reg. 197/17.
- In anticipation of these new requirements, the Ministry amended O. Reg. 364/16 to revoke the "8% Provincial Rebate" messaging requirements from bills and envelopes in advance of July 1, 2017. Note: the requirement to include an 8% rebate line item remains.
- In addition, as of July 1, 2017, the requirement to include informational messaging about the Debt Retirement Charge (DRC) on bills was revoked. However, bills are still required to include a DRC line item (even for $00.00 charges) and a definition in the "Glossary of Terms".
- As of July 2017, Hydro One has also been exempted from the application of O. Reg. 275/04, and specified OFHP invoicing requirements so that they may proceed with their planned bill redesign unencumbered by regulation. Hydro One is still required to issue quarterly OFHP bill inserts to its customers.
- Note: Vendors may petition the Minister for minor adjustments to these regulatory requirements due to technical and/or operational limitations. Minor exemptions due to message character limits have been granted to Hydro Ottawa, Enercare and IESO.

6) Redesign Action Plan (RAP)

- The Ministry believes there is also an opportunity to further revise the regulatory framework on invoicing to improve the value of electricity bills to all consumers.
- In pursuit of this effort, the Ministry launched a Redesign Action Plan (RAP) this summer with the aim of improving electricity bills by:
  - Enhancing the customer experience (e.g., providing more useful information);
  - Better communicating government initiatives and programs (e.g., personalizing OFHP initiatives);
  - Consolidating the regulatory framework; and
  - Promoting greater understanding (e.g., clarifying terminology and calculations).
- The Ministry has convened a “RAP Working Group” consisting of Hydro One, the Electricity Distributors Association (EDA), the Coalition of Large Distributors (CLD), as well as additional LDCs, the OEB and relevant industry associations.
  - Three meetings have been held to date: kick-off meeting, bill design workshop and technical implementation issues. LDCs have been supportive of the Ministry’s approach.
  - The Ministry undertook consumer research on bill redesign in partnership with the OEB and IPSOS, through the OEB’s Consumer Panel. On September 19th and 21st Consumer Panel meetings were held in Sudbury, Toronto, Kingston and London. The Ministry is examining opportunities to conduct additional quantitative research to verify the qualitative findings from the Consumer Panel.
- Based on these consultation and research efforts, the Ministry aims to introduce new regulations and regulatory amendments at the end of 2017. These regulations would come into effect as of January 1, 2018, and require a transition period for distributors to comply.

6) Billing Requirements – Proposed Timeline

- Following the introduction of the OFHP invoicing requirements, the Ministry recommends undertaking the Redesign Action Plan (RAP) in the following stages:

Pre-July 1, 2017
OFHP Bill Inserts

- Requirement for LDCs to issue "8% rebate" envelopes and include "8% rebate" on-bill messaging revoked from O. Reg. 364/16.
- LDCs voluntarily issued OFHP bill inserts in June ahead of finalized OFHP regulations (bill inserts printed by ENERGY).

July 1, 2017
OFHP Required Messaging

- OFHP regulations introduced requiring LDCs to comply with the following by July 1st:

1. Issue OFHP bill inserts on a quarterly basis for one year;
2. Include OFHP on-bill messaging;
3. Include a FNDC line item, where applicable; and
4. Remove outdated on-bill messaging (e.g., DRC).

- Hydro One exempted from specified OFHP invoicing requirements and O. Reg. 275/04.

Aug. – Oct. 2017
RAP Consultations

- ENERGY to convene a RAP Working Group including Hydro One, the EDA, the OEB, the Coalition of Large Distributors, as well as other LDCs and industry assoc.
- As part of this group, ENERGY to seek feedback on changes to bill presentment, regulatory reform, and billing system design.

Fall – Winter 2017
RAP Proposed Regulatory Amendments

- Following RAP consultations, ENERGY to introduce regulatory amendments to simplify bill presentment by the end of 2017. Hydro One to begin rolling out its redesigned electricity bills in Q4 2017.

Winter 2018 –
RAP Final Regulatory Framework

- New/amended invoicing regulations to become effective as of January 1, 2018.
- Hydro One expected to complete its roll-out of redesigned bills to its low volume consumers by Q2 2018.
- New regulations to include ample transition period for LDCs to adopt new regulatory invoicing requirements (e.g., 6 months – 1 year)

OFHP Key Milestones

2017 Sep, Oct, Nov, Dec — **2018** Jan, Feb, Mar, Apr, May, Jun

GA Refinancing

Sept. 29
- OPG Board Meeting to approve OFHP Items

- Rating Agency Process
- Nov. 20: Regulatory amendments to address accounting and commercial/financial requirements.
- Finalize other items to support first bond issuance:
  - PILs exemption;
  - Protection Agreement OIC; and
  - Sub-Debt Agreement.

- OPG Bond Issuance

Ongoing Financing
- OPG to purchase Regulatory Asset from IESO on monthly basis
- OPG to issue long-term bonds periodically
- Province to inject capital into OPG periodically as requested
- Regulatory amendments related to inflationary increases in years 3 and 4

Social Programs (FN Delivery Credit, OESP)

Sept. 18
- First full reimburse-ment request received from IESO

- FNDC LDCs sign up eligible customers
- Minister letter to OEB on cost forecasting

- PRRT Update
- Proclaim OEBA amendments to shift OESP to the tax base

- Hydro One Distribution Rate Application Oral Hearing and Adjudication (Decision timeline TBD by OEB)

- OEB to revise Maximum Distribution Charge

Affordability Fund

- LDC Engagement, Program Design to be finalized
- Program Launch
- Fund expected to be accessible to LDCs Through the PRRT process, report back to TBC/MBC on Affordability Fund in Fall 2017

Billing

- Research and Consultation
- LRC
- LDC Implementation

Appendix

Governance and Delivery Structure for Implementation of Ontario's Fair Hydro Plan

Rate Mitigation Implementation Group
- ENERGY
- MOF (IGS)
- TBS (OPCD)
- OPG (CEO, CFO)
- IESO (CEO/CAO)
- OEB
- External Advisors (i.e., legal, accounting)

Weekly Ministry of Energy Meeting

GA Refinancing – Subcommittee
- ENERGY (ESP, SNAP, LSB)
- OPG (Finance, Legal)
- IESO (Planning, Settlements, Finance, Legal)
- OEB (RPP, Legal)
- MOF (IGS, OFA)
- TBS (OPCD)
- External Advisors (i.e., Legal, Accounting)

Support Programs (i.e., RRRP, OESP, First Nation) – Subcommittee
- ENERGY (SNAP, LSB)
- MOF
- TBS
- Hydro One (Settlements)

Affordability Fund – Subcommittee
- ENERGY (CRED, LSB)
- MOF (IGS, LSB)
- TBS (OPCD)
- Hydro One (Settlements, Legal)

ICI / Manufactures and SMEs – Subcommittee
- ENERGY(ESP, LSB)
- IESO (Settlements, Legal)

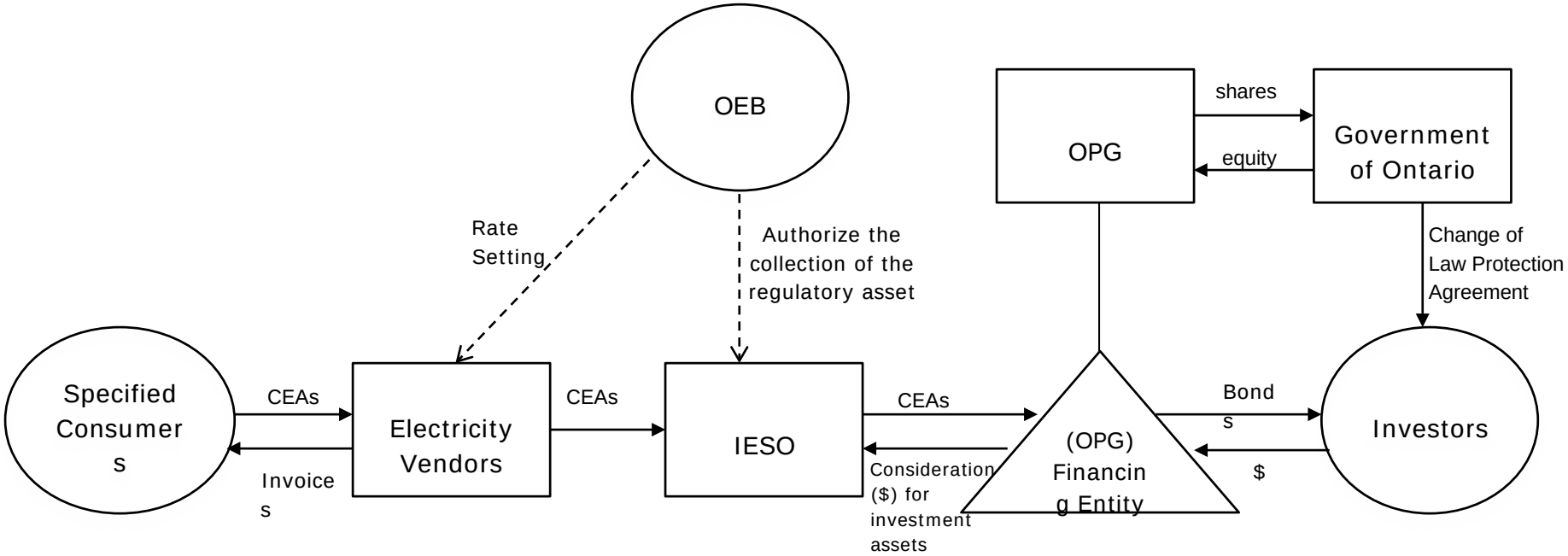
Manufactures and SMEs
- MEDG / Small Business
- MOF
- MOL

Tenants – Subcommittee
- ENERGY (SNAP, LSB)
- Housing
- MAG

Working Group – LDC
- ENERGY (ESP, CRED, SNAP, LSB)
  IESO (Settlements)
- LDCS (Settlements)
- EDA (Policy)

Affordability Fund Trust - Board of Trustees
- 3 electricity distributors
- 2 social service agencies
- 1 (non-voting) government

Global Adjustment Refinancing – Roles and Responsibilities



Note: CEAs are “clean energy adjustments”

2017 Outstanding Business Issues - Week of O_1.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

FW_ Follow-up_ SCOPA prep kick-off discussion(1).pdf

From: Armstrong, Hillary (ENERGY)
To: Schlaepfer, Martin (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion
Date: January 19, 2018 2:20:13 PM
Attachments: SCOPA_QA_Friendly_ENERGY.DOCX

Fyi, in case you need these electronically. I've also left a hard copy on my chair, along with hard copies of the status table Steen just sent. I have to head out for a meeting, but I'll be back a little after 3pm. Sorry, the timing kind of sucks with the Deputy coming back soon.

I'll have my blackberry if you need anything, and I can update the deputy's public accounts binder as soon as I'm back.

From: Cox, Hilary (ENERGY)
Sent: January-19-18 11:05 AM
To: Armstrong, Hillary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Berg, Denna (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

Hi Hillary,

Please find attached ESP's ADM-approved 3 friendly questions for today's SCOPA meeting.
Let me know if there are any questions.

Thanks,
Ava

From: Armstrong, Hillary (ENERGY)
Sent: January 18, 2018 5:12 PM
To: Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Berg, Denna (ENERGY)
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Hi Hilary,

We spoke with the Deputy about materials for tomorrow's meeting. We got the swim lanes document in to TBS in time to make it into the binder for tomorrow's meeting.

In terms of the overview document (with the questions), the Deputy wants us to put forward friendly questions. While these won't make it into the binder now, he wants to bring them as back pocket for tomorrow afternoon's meeting.

The Deputy's preference is to use Qs that we prepared for estimates. I've attached the full list of friendly questions for IESO and OPG for estimates this year. Can ESP take a look and identify the three questions you would like to put forward and share tomorrow morning? We don't need to worry about the responses right now.

Thanks,
Hillary

From: Hendy, Adam (ENERGY)
Sent: January-17-18 1:28 PM
To: Nucciarone, Michael (ENERGY); Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Armstrong, Hillary (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

Hi Folks,

Just a heads up that TBS called wondering if the swim lane doc will be coming up today, they are hoping to have it for an internal meeting tomorrow morning. They were also wondering about the three long form questions they asked us to draft in the template, is that something ESP is drafting or should we handle that on our end?

TBS also sent us their overview template (attached) asking us to do a quick review by EOD. Hillary would ESP mind taking a quick look at this today?

If you guys have any questions feel free to get in contact with Hillary Artmstrong in DMO or myself.

Thanks,
Adam

From: Nucciarone, Michael (ENERGY)
Sent: January-16-18 10:00 AM
To: Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Hendy, Adam (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion

Hilary,

Looping you in regarding the swim-lane doc.

Give me a call if you have any questions.

Thanks,
Mike

From: Hendy, Adam (ENERGY)
Sent: January 16, 2018 9:49 AM
To: Nucciarone, Michael (ENERGY)
Cc: Lyon, Sam (ENERGY); Nutter, George (ENERGY); Whytock, John (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion

Hey Mike,

I'm sure you were already aware, but just passing along the below as FYI.

Thanks,
Adam

From: Tharani, Alisha (TBS)
Sent: January-16-18 9:45 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

Hi Peter, Adam,

Hope this message finds you well.

Touching base re: SCOPA prep –

As mentioned, if we could have your feedback on the "swim lanes" document by tomorrow, it would be very much appreciated. We'll bring the updated version of the document to the DMO briefing meeting on Friday for discussion.

And, of course, please let me know if you have any feedback on the other two documents (draft agenda, issues overview template) that were shared.

Looking forward to working with you both on this file,

Alisha

Alisha Tharani
Corporate Issues Management Analyst | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

SCOPA_QA_Friendly_ENERGY_2.pdf

Ministry of Energy – Proposed Friendly Questions:

1. To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?

   And, why is the Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

DRAFT

FW_ Follow-up_ SCOPA prep kick-off discussion.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion
Date: January 18, 2018 5:28:04 PM
Attachments: Consolidated Estimates Friendlies.docx
SCOPA_QA Overview_20180117_v2.docx

Hello,

Some more SCOPA business. One of the required documents is the attached QA Overview, but all that has been requested of us with regards to it for now is to put forward three additional friendly questions by tomorrow morning asap (just questions, no responses). These are to be pulled from the attached Estimates friendlys.

Thanks, I don't totally understand it but hey.

Ava

From: Armstrong, Hillary (ENERGY)
Sent: January 18, 2018 5:12 PM
To: Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Berg, Denna (ENERGY)
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Alisha Tharani
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416-327-3803 | Alisha.Tharani@ontario.ca

Consolidated Estimates Friendlies_1.pdf

Consolidated Estimates Friendlies

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TOPIC 1: FAO $4B number

Speaking: Deputy Minister, Minister, Ken Hartwick (OPG)

1) Q. Minister, when we were last here, the Deputy Minister was trying to provide some insight into the $4 billion dollar interest cost estimate from the Financial Accountability Officer's report on Ontario's Fair Hydro Plan.

I was hoping the Deputy Minister could provide the answer that he was attempting to provide last Wednesday and also explain why Ontario Power Generation (OPG) is best qualified to manage the debt obligations?

First, I would like to point out that the $4 billion figure was an estimate made by the Financial Accountability Office (FAO) based on initial Ministry of Energy forecasts of total debt and interest levels for Ontario's Fair Hydro Plan from March 2017.

Subsequent analysis conducted by the Ministry of Energy found that the debt and interest levels are now expected to be substantially lower.

Initial estimates of peak debt decreased between March 1, 2017 and August 31, 2017 from approximately $28 billion to $20 billion and the estimates of total interest cost decreased from approximately $25 billion to $18 billion.

These updated estimates reflect refinements of a number of variables, including the cost of borrowing and electricity system cost forecasts.

I would also note that a number of variables, including interest rates, electricity demand and electricity costs, will vary over the 30-year life of the program and cost estimates will continue to be revised to reflect these changing conditions.

The FAO report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties ... Fiscal impact may differ significantly from the FAO's estimates."

While the total cost of the program has already been revised downwards substantially to reflect revised inputs, I would like to take a moment to discuss the methodology behind the FAO's analysis. The FAO simply took an estimated cost of borrowing for the Ontario Financing Authority (OFA) and Ontario Power Generation (OPG) and applied to the difference to debt estimates based on Ministry of Energy data from March.

This analysis ignores the policy intent of Ontario's Fair Hydro Plan, which to ensure that the same group of ratepayers receive the benefit and pay the costs associated with the plan.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (known as the Fair Hydro Plan Trust) that will manage the debt obligations.

OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

I would now like to invite Ken Hartwick from OPG to elaborate on the structure and speak to OPG's qualifications and its plan to keep costs down.

[Deputy passes of to Ken Hartwick to elaborate on the structure and speak to OPG's qualifications and plan to keep costs down]

Let me make a few remarks about OPG's qualifications as the financing manager of the Fair Hydro Plan:

OPG currently manages an $18 billion nuclear fund and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing the Fair Hydro initiative. For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

2) Q. What is OPG's Role?

OPG will be acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, basically arranging for a variety of debt financing for the deferred costs.

We will be setting up a financing entity in the form of a "Trust", which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills and will be funded through the Trust.

OPG will arrange for third party debt, supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be lent to the Trust, also at equivalent market rates.

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB), the Independent Electricity System Operate (IESO) and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

3) Q. What is the difference between the Province Borrowing Program and Fair Hydro Trust (FHT) borrowing program?

A simple comparison between direct borrowing by the Province and OPG's role in Ontario's Fair Hydro Plan is a bit of an "apples to oranges" comparison.

A conventional Provincial borrowing program would raise funds based on the credit worthiness of the Province and the Provincial Guarantee.

Under Ontario's Fair Hydro Plan, lenders will provide funds based on the underlying value of the specific asset. This value is created by the legislated framework rather than through a Provincial Guarantee.

Ontario's Fair Hydro Plan will create a series of deferred assets that will have certain cashflow payment streams going forward. The overall objective of Ontario Fair Hydro Plan is to spread the costs and benefits out. The financing has to be actually linked to the overall payment scheme going forward and aligned with the benefits.

Consequently, the financing actually lends itself toward a "securitization" structure with cash flows matched to specific benefits rather than as a conventional borrowing program.

4) Q. Why is OPG best placed to minimize the cost of the overall program?

The Ontario Power Generation (OPG) has the expertise and experience to manage this securitization program. The Ontario Financing Authority (OFA), does not, as far as I am aware, have direct experience in setting up or managing a securitization vehicle or program.

This combination and diversity of skills position OPG to ensure an effective funding arrangement is put in place that clearly defines the electricity ratepayer in context of the person receiving the initial benefit of the legislation.

As we work through the financing program for Ontario's Fair Hydro Plan, OPG is focused on ensuring that financing is optimized to minimize costs to ratepayers.

In particular, attention has been given to achieving a strong credit rating for the Trust, again, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Finally, OPG's Treasury function is well positioned given its experience in developing structured financing programs and in managing multiple existing debt platforms.

TOPIC 2: OPG and Fair Hydro Plan accounting

Speaking: Ken Hartwick (OPG)

1. OPG and Fair Hydro Plan

Question:

You have a lot of experience working in the electricity sector in other jurisdictions in North America. Could you tell us about whether you've seen this kind of arrangement elsewhere before – in which costs are deferred over a longer period of time than originally planned?

- **Programs similar in concept have been set up in the electricity sector, especially in the US. Several of these programs defer charges of one billion dollars or more.**
- **The most recent transactions that are similarly several billion in size occurred at Duke Energy and Long Island Power**
- **Florida and other states (approximately 18 in total) have passed similar securitization legislation to authorize recoveries by utilities of specified costs, such as hurricane recovery costs, environmental control costs, or costs associated with deregulation of the electricity market**
- **All of these take costs that have been incurred and spread their recovery over several years and decades through financing arrangements similar to the FHP.**

2. OPG and Fair Hydro Plan

Question:

Could you please tell us about what OPG's role is in the administration and ongoing operation of the Fair Hydro Plan?

- **OPG will be acting as the financing manager for the Fair Hydro legislation, basically arranging for a variety of debt financing.**
- **We will be setting up a financing entity (Trust), which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.**
- **The financing requirements are determined by the legislation and the reduction consumers have on their bills and will be funded through the Trust.**
- **OPG will arrange for the third party debt, and supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be leant to the Trust, also at equivalent market rates.**

3. OPG and Fair Hydro Plan

Question:

But is it unusual for an organization like yours to take on this responsibility?

Could you please explain why OPG might be the appropriate entity to play this kind of role—do you think you are adding value to the process by acting as the Financial Services Manager?

- **OPG is uniquely positioned as we understand the supply / demand characteristics of the market, we regularly interact with the OEB, IESO and we have experience in Treasury operations in the marketplace including relationships with the credit rating agencies.**
- **OPG has recently successfully project financed hydroelectric investments from public markets and has an ongoing settlement relationship with the IESO.**

- **A simple comparison between direct borrowing by the Province and OPG's role in the Fair Hydro Plan is a bit of an apples to oranges comparison.**
- **A conventional Provincial borrowing program would raise funds based on the credit worthiness of the Province and the Provincial Guarantee.**
- **Under the Fair Hydro Plan, lenders will provide funds based on the underlying value of the specific asset. This value is created by the legislated framework rather than through a Provincial Guarantee.**
- **The Fair Hydro Plan will create a series of deferred assets that will have certain cash-flow payment streams going forward. The overall objective of the Plan is to spread the costs out. The financing has to be actually linked to the overall payment scheme going forward, and aligned with the benefits. Consequently, the financing actually lends itself toward a securitization structure with cash flows matched to specific benefits rather than as a conventional borrowing program**
- **OPG has the expertise and experience to manage a securitization program. The Ontario Financing Authority, does not, as far as I am aware, have direct experience in setting up or managing a securitization vehicle or program.**
- **This combination and diversity of skills position OPG to ensure an effective funding arrangement is put in place that clearly defines the electricity rate payer in context of the person receiving the initial benefit of the legislation.**

4. OPG Accounting and Transparency

Question:

Do you think the structure that's been created to administer and operate the Fair Hydro Plan—and that OPG plays a role in—is a structure that will provide for transparency as it related to the borrowing and the accounting?

- **The structure that has been set up in fact ensures a high level of transparency.**
- **As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents**

- **Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.**
- **All of this will be reported in OPG's financial reports on a quarterly and annual basis. OPG's financial reports are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight.**

5. OPG Accounting and External Experts

Question:

Could you explain what sort of external expertise you enlisted, and please explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

- **There are three specific areas that we supplemented our team with external resources.**
  - **First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.**
  - **The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.**
  - **The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.**

  As has been mentioned OPG has strong capabilities across these areas but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

6. OPG and the Fair Hydro Trust

Question:

Can you describe what OPG has been asked to do to minimize the customer impact of implementing the FHP?

- **OPG will act as the Financial Services Manager for the FHP Trust.**
- **There are 2 primary goals of the Financial Services Manager:**
  - **First of these, is to ensure that the activities envisioned under the FHP legislation, as they pertain to the Trust, are consistent with the electricity ratepayer both receiving the bill reduction and the corresponding collection of the costs related to the activities that have been invested in.**
  - **The second is to work on optimizing the FHP Trust financing to ensure that costs to ratepayers are minimized and reflect the benefit the ratepayer initially received.**
- **Speaking to the second point we have been working on a financing program that includes several elements including a securitization program, provincial equity support and OPG funding. These elements are being optimized in a manner that will achieve an effective financing program for the benefit of consumers.**
- **As we have worked through the program attention has been given to achieve a strong credit rating for the Trust again with the objective of mitigating the impact on the ratepayer through effective market pricing by the Trust of the funds being borrowed.**
- **It is also critical to my first point that the financing program have a high level of transparency so ratepayers can understand the nature of the program and the associated costs. The Trust will file all necessary financial reports that will ensure this transparency.**

TOPIC 3: IESO and Accounting

Speaking: Kim Marshal (IESO)

Q1. In the first session we asked if you could you talk about how the IESO's accounting policy compares to its peers. You said you were looking for trends, and you did some work in terms of how others are defining their rate-regulated assets. Can you elaborate further on this? Did you discuss this method with the other companies who are using it to determine what the overall advantages are?

- Of course. Thanks for the opportunity to revisit this question.

- When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.
- Including the IESO, **there are 9 independent system operators in North America**; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.
- We had discussions with these organizations about their operations and accounting practices.
- We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.
- From this research, we found that **7 of the other 8 ISOs recognize the balances of the market participants.** They are:
    1. **ISO New England**
    2. **NYISO**, in New York
    3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi, and Louisiana.
    4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.
    5. **CAISO**, in California
    6. **ERCOT**, in Texas
    7. **Southwest Power Pool**, in central US.
- When we talked to our counterparts across North America about regulatory assets, we found out that **6 of the other 8 entities recognize the economic effects of rate regulation**, they are:
    1. **AESO**, in Alberta
    2. ISO New England
    3. NYISO
    4. MISO
    5. PJM
    6. ERCOT
- I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

- When we talked to CAISO, we found out that **their accounting framework actually allows for the recognition of regulatory assets and liabilities**, but that it had concluded the need to recognize regulatory assets was no longer necessary.
- When we talked to Southwest Power Pool, we learned that **they simply do not have any variance accounts that would qualify as regulatory assets or liabilities**.

- So, when we looked at making the accounting change we considered that:
    1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
    2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
    3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
    4. That this change would **bring the IESO in line with its peers** across North America; and
    5. Finally, that this accounting change would in **no way affect the IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Q2. In the first session you stated that "Public Sector Accounting Standards (PSAS) are silent in terms of rate-regulated accounting," which is ultimately what led the IESO in conjunction with KPMG, to look beyond PSAS to US Generally Accepted Accounting Principles (GAAP) in terms rate regulated activities. How did the IESO come to the conclusion that it was acceptable to use GAAP instead of PSAS for rate regulated activities? Is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

- The IESO follows Public Sector Accounting Standards (PSAS) for its accounting.
- PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities.
- In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard.

- If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

- In this case, the IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing the IESO to recognize a regulatory asset.

- This decision was supported by an accounting opinion from our external auditors at KPMG and as we've just discussed, aligns the IESO with six of the eight other independent system operators in North America.

- In fact, more than one of the big-four accounting firms agree with our decision on this matter.

Q3. Obviously determining a structure like this requires a lot of comprehensive insight and analysis to ensure that the best interests of Ontario ratepayers are being protected. Who was involved in the decision making process? What experts and outside companies were involved, and is the IESO certain that they left no stone unturned in ensuring the proper accounting process and standards were chosen?

- Definitely. It's a decision we made after careful consideration and extensive consultation with external experts.

- The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

- Prompted by conversation with government about the Fair Hydro Plan and recognizing the need to consider impacts of future government policy, the IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its audit partner KPMG, the IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements.
- By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.
- We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.
- As we just covered, this change to recognize regulated assets and market accounts brings the IESO in line with accounting practices followed by other independent system operators in North America.
- I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of the IESO, reported a subset of the market accounts on its financial statements – so this isn't new.
- To confirm our view that the change was appropriate, the IESO engaged independent audit firm KPMG for accounting research on the matter.
- KPMG conducted their own research into the issue.
- KPMG subsequently issued a white paper on the accounting change, supporting the IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.
- The accounting change was reviewed by the IESO's Board of Directors, and approved.
- As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.
- Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, the IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

- Now, you asked a question about ensuring the best interests of Ontario rate payers were protected and this is an important point that I want to take the time to address, specifically, because it was a consideration of ours.

- **These changes in no way affect the IESO's costs, or have any financial impact on electricity ratepayers.**
- Ultimately, the IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion **last year**, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

Q4. You say the IESO received an "unqualified opinion" from its auditor on your 2016 financial statements. What does that mean?

- It is the auditor's responsibility to express an opinion on the financial statements based on their audit.
- In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.
- Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.
- Here are some of the things an audit looks into:
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- **On our 2016 financial statements, KPMG stated: ”We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion”**
- This was followed by a statement of their **unqualified opinion:**
    - **In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.**
- This is taken directly from our 2016 financial statements, which are publically available.
- So the “unqualified opinion” is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent the IESO’s financial position at year-end.

Q5. So you received a clean audit on the 2016 financial statements which included regulatory accounting. Why didn’t the IESO include these transactions on financial statements prior to 2016?

- The IESO regularly reviews its accounting policies.
- Prompted by a discussion with government about the Fair Hydro Plan, the IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its auditor, the IESO determined that a choice was required as to whether or not to record Market Accounts and regulatory assets and liabilities in the IESO financial statements.
- By analyzing the nature of the accounts, IESO’s economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- In order to confirm our decision, we asked KPMG to conduct some research on our behalf into the appropriateness of adopting regulated accounting.
- Their research agreed with our view that the recognition of regulatory assets and liabilities better reflects the economic substance of IESO’s operations and enhances the relevance, transparency and accountability of its financial reporting.
- It also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

- Finally, KPMG found that the accounting change would bring the IESO in line with the majority of its ISO peers across North America.

- When we considered the results of KPMG's research, along with the fact that the change would have no impact on **the IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.**

TOPIC 4: Ministry and OFHP Support Programs

Speaking: ADMs (TBD),

Funding of Support Programs

Preamble: As part of the changes announced in the Fair Hydro Plan, your Ministry announced some changes to several support programs. You also communicated that these programs would be funded differently.

Q1: Could you please explain how the change of funding social programs works, and how it will affect people's bills?

Response

In the past, the costs of two social programs – Rural or Remote Rate Protection and the Ontario Electricity Support Program – were funded by ratepayers. The average electricity customer in Ontario contributed approximately $2.50/month to fund these important programs.

However, in recognition of the broader social benefits of these programs, as part of Ontario's Fair Hydro Plan we have transitioned the vast majority of these costs to taxpayers – leading to real, month over month savings in the Regulatory charge of consumer's electricity bills

These programs have been subsequently expanded, to provide greater benefits to more customers, at no additional cost to the ratepayer. The new First Nations Delivery Credit is also funded through taxpayers and will not be charged to consumers.

The social programs are targeted to some of the more vulnerable consumers in Ontario – including those with low-income and in high-cost rural areas - to ensure that our electricity system recovers costs in a fair and equitable manner.

Rural or Remote Ratepayer Protection (RRRP)

Preamble: You also announced additional relief for those consumers who live in the rural and remote parts of our province. These consumers often struggle with higher delivery charges than those who live closer to our sources of generation, or live in areas in which it's harder to maintain the poles and wires.

Q2: I know that the Rural or Remote Rate Protection (RPPP) program previously helped these customers, but could you explain what actions were taken in the Fair Hydro Plan to broaden this relief?

Response

I know that the Rural or Remote Rate Protection (RPPP) program previously helped these customers, but could you explain what actions were taken in the Fair Hydro Plan to broaden this relief?

As part of the Fair Hydro Plan, the Government has introduced distribution rate protection that provides distribution rate relief for those residential customers that are served by LDCs with some of the highest distribution rates. Those LDCs are:

- Hydro One (R1 medium density & R2 low density)
- Algoma Power
- Atikokan Hydro
- Chapleau Public Utilities
- InnPower
- Lakeland Power (Parry Sound area only)
- Northern Ontario Wires
- Sioux Lookout Hydro

Eligible customers of those LDCs will not pay more for base distribution rates than $36.43 – the maximum amount set by the OEB for 2017.

The distribution rate relief provided through RRRP and Distribution Rate Protection (DRP) will offset potential rate increases, if any, approved by the OEB, or augment any rate decreases, if any, implemented by the OEB for these eligible customers.

Support Programs for Low-Income Ontarians

Preamble: Additionally, the Minister sometimes mentions that relief for those who are low-income or live in the rural parts of our province may be as high as 40-50%.

Q3: Could you please expand on the low-income support? What programs for low-income consumers were introduced or amended in the Fair Hydro Plan, and how will this change affect the constituents in my riding?

Response

The Ontario Electricity Support Program, or the OESP, provides monthly on-bill credits for eligible low-income customers all across Ontario. The Fair Hydro Plan included enhancements to the OESP that benefit ratepayers in two important ways:

- First, the OESP program costs will no longer be funded by the rate base. It will now be a government-funded program, providing savings for ratepayers.
- Second, the program was enhanced to provide more benefits to a greater number of Ontarians.

Starting May 1, 2017, the OEB increased OESP support for low-income consumers by 50 per cent. New eligibility categories were also introduced, enabling certain household sizes in higher income brackets to become eligible for the OESP. Monthly credits now range from $35 to $75. This means that:

- a single customer earning under $28,000 can now receive $45 per month, up from $30;
- a family of four with a combined earning under $48,000, which was previously not eligible for the program, can now receive $40 per month; and
- seven or more people living together who earn a total of $39,000 or less can receive $75 per month, up from $50.

If an applicant uses electricity as a primary source of heating, uses certain energy-intensive medical devices, or identifies as an Indigenous person, they would be eligible for the enhanced credit. That credit ranges from $52 to $113 per month.

Ontario is also working to improve co-ordination across provincial programs that provide support to low-income Ontarians. This includes ensuring that anyone deemed financially eligible for Ontario Works or the Ontario Disability Support Program will automatically be eligible for the OESP.

Support for Businesses

Preamble: When the Fair Hydro Plan was introduced, the Ministry also announced that up to as many as 500,000 small businesses and farms would benefit from the 25 per cent on average reduction. You also expanded the Industrial Conservation Initiative (ICI) for larger industrial businesses.

Q4: Could you please explain what the Industrial Conservation Initiative program does, have it was expanded, and what other initiatives exist that businesses can benefit from?

Response

The government of Ontario has a number of programs in place to help businesses and industry manage their electricity costs.

In particular, the Industrial Conservation Initiative (ICI) is an important program that provides participants with the opportunity to lower their electricity costs by reducing electricity consumption during peak hours of the day.

The Industrial Conservation Initiative (ICI) works by allowing participants to pay Global Adjustment (GA) based on their contribution to the top five system peak demand hours of the year. This provides an incentive for ICI participants to reduce consumption during peak hours, benefitting them financially and benefitting the electricity system by reducing peak demand and deferring the need to build new generation.

In 2016, ICI reduced peak demand by about 1,300 Mega Watts.

As part of Ontario's Fair Hydro Plan announced in March 2017, the government has expanded ICI to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW.

This change announced in Ontario's Fair Hydro Plan builds on a previous expansion that took effect in January 1, 2017. To give more businesses the opportunity to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.

- Prior to lowering the ICI eligibility threshold and removing sector restrictions, only electricity consumers with peak demand between 3 and 5 MW could participate in ICI.

With the expansion of ICI to 1 MW and the removal of sector restrictions, an estimated 1,300 consumers became eligible for the program. As a result of the change to ICI announced in Ontario's Fair Hydro Plan, the number of eligible consumers for the program is expected to increase further.

The government is also assisting consumers who are considering participation in Industrial Conservation Initiative (ICI) through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

In addition to the Industrial Conservation Initiative (ICI), Ontario's Fair Hydro Plan includes other measures to benefit businesses and mid- to large-sized consumers.

- All consumers are benefitting from the shifting of cost recovery for the Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) from electricity bills to provincial revenues.

- Small businesses and farms that are eligible for the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) are also eligible to receive the benefits from refinancing of a portion of the Global Adjustment (GA), which has resulted in significant and immediate rate relief.

In addition to the measures note, Ontario also has a number of programs already in place to help industries, businesses, commercial operations and institutions lower their electricity costs and remain competitive.

These programs include:

- The Industrial Accelerator Program (IAP) – which assists eligible transmission-connected companies and their distribution-connected sites to fast-track the capital investment needed for major energy conservation projects;

- The Save on Energy for Business programs – which provide financial incentives that help distribution-connected businesses to reduce their electricity use and manage costs though energy audits, retrofits and process and system improvements; and

- The Northern Industrial Electricity Rate (NIER) Program – which provides rate rebates to Northern energy-intensive industries facing competitiveness pressures due to higher energy costs. The program also assists industrial consumers in developing and implementing energy management plans to manage their usage and reduce costs.

Finally, to further help ease the pressure on larger electricity consumers, the government is removing the Debt Retirement Charge (DRC) for all non-residential consumers on April 1, 2018 – nine months earlier than previously estimated.

Going forward the government will continue to engage with businesses and industry to explore innovative ways to reduce costs for these consumers

Effect on Ratepayer's Bills

Preamble: I think it's great that we're helping out the most vulnerable groups, such as low-income, rural, and First Nations customers, but I'm worried that this will end up costing more on my hydro bill.

Q5: Will the increases of these programs affect the electricity bills of customers who don't receive support from these programs?

Response

No – the full expansion of the social programs, as well as the vast majority of existing program costs, have been transitioned to the taxbase, leading to real, month-over-month savings in the Regulatory line of consumer invoices.

TOPIC 5: Additional Ministry of Energy questions

Speaking: ADM (TBD), Deputy Minister, Minister

Electricity costs

Preamble: The people of Ontario are currently able to benefit from a clean and reliable supply of electricity. But many of us remember that before 2003, we struggled with blackouts and brownouts, and an electricity system that was unreliable and in need of repairs.

As you've mentioned before, our government had to make significant investments to modernize and upgrade Ontario's electricity system. These were essential investments, including more than $50 billion in electricity generation and grid infrastructure across the province. We've also been able to close Ontario's coal plants, and in doing so, were the first jurisdiction in North America to go coal-free.

But this came at a cost—one that the current generation was bearing all by themselves.

Q6: Could you please explain what measures were taken by your Ministry to reduce this burden and lower electricity costs for consumers and businesses?

Minister Response

Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system.

The government has heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we are moving forward with a plan that would ensure costs are shared more evenly over the years ahead.

Ontario's Fair Hydro Plan provides new measures to lower electricity bills by 25 per cent on average for residential consumers and hold increases to the rate of inflation for the next four years, as well as initiatives to reduce costs for businesses. The plan includes the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on all electricity bills. This rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA will provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

Under GA refinancing, initial analysis indicates that borrowing would occur for about 10 years. Initial analysis indicates that it is currently anticipated that loans will begin to be paid back in the mid-to-late 2020s. The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible. This is a significant change that represents a fair solution to an issue that has unfairly burdened current electricity ratepayers. This does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for social programs off of hydro bills.

Electricity consumers that are eligible for the 8 per cent rebate are also eligible for GA refinancing, including all residential consumers, farms, most small businesses, long-term care homes and condominiums.

We are helping vulnerable electricity consumers by enhancing electricity support programs. For those most in need, the Save on Energy Home Assistance Program provides home energy efficiency upgrades at no cost to low-income electricity customers to help reduce future electricity bills.

We recognize that there are other electricity customers who are in need but do not meet the Home Assistance Program eligibility criteria. The Affordability Fund will provide energy efficiency measures to those Ontarians who are not eligible for the Home Assistance Program, and who are otherwise unable to make energy efficiency improvements without financial assistance. Energy efficiency improvements can help customers reduce future electricity bills and avoid future disconnections.

In March 2017, the Ministry of Energy entered into an agreement with an independent Trust to administer the Affordability Fund. The Trust will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria. The Trust's Board includes representation from three electricity distributors, two social service agencies and the Ministry of Energy (one non-voting representative).

We have expanded the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW, in addition to the consumers over 1 MW who are already eligible.

In June 2016, the government directed the OEB to examine and report back to the Ministry of Energy on options for First Nations rate assistance. Working with a First Nation Advisory Committee and the Chiefs of Ontario, the OEB submitted its report on First Nations rate assistance options to the ministry, including consideration for possible options, costs, funding mechanisms, and program development issues.

As a result, Ontario's Fair Hydro Plan included the elimination of the delivery charge for on-reserve First Nation customers through the First Nations On-Reserve Delivery Credit. This initiative helps address some of the unique challenges that on-reserve First Nation customers face, and recognizes First Nations' contribution to the provincial electricity system.

The FNDC provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs). For those First Nations residential customers served by an LDC that are charged a bundled rate and do not have a delivery charge, we are providing a credit equal to the monthly service charge. The Ontario Energy Board estimates that the First Nations Delivery Credit will provide residential customers an average monthly benefit of $85 (or $1,020 per year).

In total, there are about 21,500 on-reserve First Nations residential customers served by LDCs. who automatically qualify.

We are also providing more support for Ontario customers that are in the greatest need of rate relief. The Ontario Electricity Support Program was launched in January 2016 to provide monthly, on-bill credits to low-income households. In May this year, we increased those monthly credits by 50% across the board, and broadened program eligibility so that more Ontarians can get access to the program. The Ministry of Community and Social Services is also playing a critical role by helping to ensure that those receiving social assistance are automatically eligible for the OESP.

We currently provide a distribution rate subsidy to support to roughly 350,000 rural or remote customers through the Rural or Remote Electricity Rate Protection (RRRP). Through the Fair Hydro Plan, we expanded distribution rate protection to provide distribution rate relief to residential customers of local distribution companies (LDCs) with some of the highest rates, including some of those that receive RRRP. The enhanced program will benefit about 800,000 customers in total. Specific rebate amounts will be LDC specific and dependent on customer usage.

Additionally, we moved the majority of the cost of RRRP to be funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers. This will save the average residential rate payer an additional $1.35 per month..

In addition to these changes, other assistance programs for energy costs are available through the Ontario Trillium Benefit, as well as the Low-Income Energy Assistance Program (LEAP), which provides relief for those in need of emergency assistance on their utility bills.

We are also improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator and the Ontario Energy Board.

I'll pass it over to Deputy Minister Serge Imbrogno, who will discuss Ontario's rate mitigation measures in further detail.

Deputy Minister Response

On January 1, 2017, the Government introduced the Ontario Rebate for Electricity Consumers, which reduces electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month for an average residential consumer. In addition, the RRRP for low-density rural customers was increased from $31.50 per month to $60.50 per month. This reduced these customers' monthly distribution bills by an additional $29 per month.

As part of the Fair Hydro Plan, starting July 1 ,2017, the Government also provided additional distribution rate protection to provide distribution cost relief to residential customers of those local distribution companies with some of the highest costs. Customers of those high-cost LDCs will have their monthly base distribution charge harmonized at an amount determined by the OEB that reflects the lowest monthly base distribution charge that is currently charged by this group of higher cost LDCs that have had a rate application for 2017 approved by the OEB. This amount is currently set at $36.43 per month – which means that eligible customers of those LDCs will not pay more for base distribution rates than $36.43.

First Nation leaders and Political-Territorial Organizations advocated for the review of delivery charges associated with transmission and distribution assets within the context of the potential for electricity rate relief for on-reserve customers. Acting on that, as well as the information provided by the OEB and input received during LTEP engagement sessions, the Fair Hydro Plan established the First Nations On-Reserve Delivery Credit (FNDC).

The resulting First Nations Delivery Credit, which provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs), is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

This distribution and delivery rate relief, combined with other parts of the Fair Hydro Plan, could see some customers' total electricity bills reduced by 40-50%.

I would like to build on the Minister's statements on the Ontario Electricity Support Program, or the OESP. As rates continued to rise due to much needed investments in the electricity system, we recognized the importance of providing immediate and dependable relief to those most affected. Working with the Ontario Energy Board, the province's independent energy regulator, the OESP was launched on January 1, 2016.

Since launching, we have seen considerable uptake across the province, and with the recent changes under the Fair Hydro Plan, the Ministry is working closely with all of its partners to get as many households signed up to this program as possible. This includes important advertising, communications, and marketing efforts to get the word out to people who may be eligible for the program. It also means taking steps to streamline the OESP with existing social assistance, making it easier for low-income Ontarians to access support.

Under the Fair Hydro Plan, the monthly on-bill credits for eligible households ranges from $35 to $75. If an applicant uses electricity as a primary source of heating, uses certain energy-intensive medical devices, or identifies as an Indigenous person, they would be eligible for the enhanced credit. That credit ranges from $52 to $113 per month.

Since program launch, over 350,000 applications have been received, and about 200,000 households are already receiving on-bill credits through the OESP. We are taking important steps to improve those numbers. This includes enhancements to the

program and addressing some of the barriers to apply, like making it easier for people to provide their consent so they can finish the application process. Our work with the Ministry of Community and Social Services to streamline benefits programs is another important step in this direction.

I want to add one more thing about the OESP under the Fair Hydro Plan. This program was originally paid for through rates. That charge ended on May 1 in order to shift this program to a government-funded initiative, providing more rate relief for all customers. While the charge was small, taken together with other rate relief under the Fair Hydro Plan, these changes are making a big impact on customer bills.

I'd ask Assistant Deputy Minister Steen Hume to provide further details on Ontario's Fair Hydro Plan.

ADM Response

Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system, including $35 billion in electricity generation to ensure the system is clean and reliable and $15.5 billion in transmission and distribution.

Ontario's Fair Hydro Plan is providing significant and immediate rate relief by spreading the costs of our investments in the electricity system over a longer period of time. It has done this through the refinancing of a portion of the Global Adjustment (GA).

By way of context, the GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs.
As Ontario invested in renewing its electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced. In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

The government has aligned eligibility for GA refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for 8 per cent rebate are also eligible for GA refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

All Regulated Price Plan (RPP) consumers receive GA refinancing through the Ontario Energy Board's (OEB) RPP rate setting process. Consumers not participating in RPP but who are eligible for GA refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

On May 1, 2017, new, lower RPP prices took effect, bringing the total reduction to 17 per cent. In determining the May 2017 RPP prices, the OEB made its own independent determination to partially reflect the measures that were proposed under OFHP, pending the passage of enabling legislation. As a result of the Fair Hydro Act, 2017 achieving Royal Assent on June 1st, the OEB updated RPP prices again to reflect the full benefit of GA refinancing, increasing savings from 17 to 25 per cent on average for residential consumers.

The new RPP prices will be in effect until April 30, 2018. At that time, the OEB will reset RPP prices and the GA Modifier in a way that holds increases to the rate of inflation, in accordance with the legislation.

Helping Vulnerable Consumers

Ontario's Fair Hydro Plan includes additional measures to benefit Ontarians will low incomes and those living in eligible rural or remote communities.

We recognize that there are electricity customers who are in need but do not meet the Home Assistance Program eligibility criteria. The Affordability Fund will provide energy efficiency measures to those Ontarians who are not eligible for the Home Assistance Program, and who are otherwise unable to make energy efficiency improvements without financial assistance. Energy efficiency improvements can help customers reduce future electricity bills and avoid future disconnections.

In March 2017, the Ministry of Energy entered into an agreement with an independent Trust to administer the Affordability Fund. The Trust will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria. The Trust's Board includes representation from three electricity distributors, two social service agencies and the Ministry of Energy (one non-voting representative).

To help reduce electricity bills for First Nations people living on reserves, we are eliminating the delivery charge for all on-reserve First Nations residential customers. We have also removed the monthly service charge for customers of licensed distributors that charge a bundled rate. The Ontario Energy Board estimates this will provide residential customers an average monthly benefit of $85 (or $1,020 per year)

In total, there are about 21,500 on-reserve First Nations residential customers who automatically qualify.

The Ontario Electricity Support Program (OESP) has also been expanded, which lowers electricity costs for the most vulnerable customers by providing a rebate directly on their bills. This program — which is income-tested and application-based — uses two scales: basic credits; and an enhanced credit for Indigenous people and for people who use electric heat as their primary source of energy or certain electrically intensive medical devices.

The eligibility for OESP has also been expanded so that more Ontarians can receive the credit. OESP credits also increased by 50 per cent. We are moving the OESP funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers.

We currently provide support to roughly 350,000 rural residential customers through the Rural or Remote Electricity Rate Protection Program (RRRP). We will expand this

support to provide rate relief also to customers of local distribution companies (LDCs) with some of the highest rates.

The enhanced program will benefit about 800,000 customers total. As an example, a Hydro One low density customer on electric heat consuming 2,500kWh/month will see their distribution charge reduced by about $75. Specific rebate amounts will be dependent on Ontario Energy Board rate-setting processes.

We are moving to have the RRRP funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers. We project this will cost about $500 million in the 2017–18 fiscal year.

ICI Expansion

Ontario's Fair Hydro Plan also includes measures to benefit larger consumers. We have expanded the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW, in addition to the consumers over 1 MW who are already eligible. ICI participants can reduce electricity costs by one third on average.

ICI lowers costs for eligible consumers that reduce consumption during the top five system peak hours of the year. This benefits businesses financially and benefits the system by deferring the need to build new peaking generation. ICI consumers can reduce their electricity costs by one third on average. In 2016, ICI is estimated to have reduced peak demand by about 1,300 MW.

ICI was also previously expanded, effective January 1, 2017. To give more businesses the incentive to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed. Prior to lowering the ICI eligibility threshold and removing sector restrictions, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following

sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses.

An estimated 300 consumers were already participating in the program. With the expansion of ICI to 1 MW and the removal of sector restrictions, an estimated 1,300 consumers are eligible to pay GA according to their share of total Ontario demand in the highest demand hours of the year. The number of participants is expected to be impacted by the further expansion of ICI to include smaller manufacturers and greenhouses between 500 kW and 1 MW.

The government is also assisting consumers who are considering participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Consumers of all sizes are also benefitting from the shifting of cost recovery for OESP and the majority of RRRP from electricity bills to provincial revenues, an action that is lowering regulatory charges for everyone by approximately $3/MWh.

Existing Programs

Additional programs that provide support to Ontario families in paying their bills, include:

- The Ontario Energy and Property Tax Credit saves qualifying individuals up to $1,023 per year, with a maximum of $1,165 per year for qualifying seniors.

- The Low-Income Energy Assistance Program provides emergency financial support of up to $600 for families and individuals having trouble paying their bills.

- The Northern Ontario Energy Credit helps families and individuals in Northern Ontario by providing tax credits for low- to middle-income families and individuals living in northern Ontario. The maximum annual credit for a single person is $148, and for a family (including single parents), is $227.
- The saveONenergy Home Assistance Program, which was developed to help income-eligible homeowners and tenants manage their energy use and costs

by offering detailed in-home energy assessments and installing energy-saving measures at no cost. Social and assisted housing providers also qualify for assistance in making their buildings more energy efficient.

Existing programs for businesses include:

- Industrial Electricity Incentive (IEI), which offers reduced electricity rates for companies starting or expanding operations in Ontario;
- Northern Industrial Electricity Rate Program (NIERP), which provides a rebate of $20/MWh to northern industrial consumers;
- Industrial Accelerator Program (IAP), which assists eligible transmission-connected customers to fast-track capital investment of up to $10 million for major energy-efficiency projects, equipment retrofits, process changes and new construction;
- The SaveONenergy for Business Program, which offers financial incentives for audits, retrofits and process and systems improvements to eligible distribution connected commercial and industrial customers;
- Demand Response, through which consumers can receive payment in exchange for the commitment to reduce consumption when called upon.

Ontario's Fair Hydro Plan is lowering electricity bills for residential consumers and as many as half a million small businesses and farms are also benefitting.

Efficiences in the Electricity Sector

Preamble: In the 2016 Mandate letter that was issued to you by the Premier, one of the key priorities was to drive efficiencies and maximize return on investment from the electricity sector. As you well know, finding these efficiencies would help drive the cost down for ratepayers, and I know our government is always looking for ways to help minimize price impacts on Ontario families and businesses.

In March, you announced the Fair Hydro Plan, which lowered bills by 25 per cent on average for all residential consumers and as many as 500,000 small businesses and farms. As part of the Fair Hydro Plan, you also recommitted to finding more efficiencies in the energy sector. Your Ministry stated that "Ontario's commitment to lowering energy costs for ratepayers would include working with the province's agencies to identify opportunities to drive efficiency and productivity improvements."

Q7: Could you please provide more detail on how the Government is moving forward with driving efficiencies in the electricity sector?

Minister response

The government has been working hard to reduce electricity ratepayer costs and will continue to look for efficiencies in the system wherever possible without compromising the reliability of our system.

We have already taken several steps to mitigate system costs, including:

- Renegotiating the Green Energy Investment Agreement (GEIA) in 2013, to reduce contract costs by $3.7 billion.
- Reducing Feed-in Tariff (FIT) prices through annual price reviews, saving ratepayers at least $1.9 billion.
- Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
- Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, resulting in up to $3.8 billion in savings, relative to the 2013 LTEP forecast.

- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements - resulting in savings of up to $129 million.

- Deferring the construction of two new nuclear reactors at Darlington. This was in response to the supply and demand expectations of the 2013 LTEP, avoiding an estimated $15 billion in new construction costs.

- Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020, instead of 2016, thus helping to achieve $1.7 billion in savings relative to the 2013 LTEP forecast and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers as much as $600 million.

The Province's 2017 Long-Term Energy Plan will focus on continuing to take additional costs out of the system, and address affordability beyond the short and medium term. We have a robust energy supply and are in a good position to improve efficiency, increase transparency, and enhance opportunities for innovation and competition to reduce system costs. That is why Ontario's Fair Hydro Plan includes improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, the IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The project is expected to save up to $5.2 billion over a 10-year period, and forms a key component of Ontario's plan to ensure the affordability of electricity.

DM response

The Government's agency that is responsible for regulating local electricity distribution utilities (LDCs) has a mandate to regulate the electricity distribution and transmission

sector in the public interest, ensuring the financial viability of the sector while promoting reliable service to customers at just and reasonable rates.

Since 2012, the OEB has taken action – through its Renewed Regulatory Framework for Electricity – to more closely link rate regulation with performance measures and outcomes. This includes rolling out LDC Scorecards and revising rate setting processes.

The LTEP will direct the Ontario Energy Board (OEB) to continue to enhance its efforts to improve the performance of local electricity distribution companies (LDCs) and transmitters. The OEB will make utilities more accountable to their consumers, promote efficiencies and cost reductions, encourage partnerships, and ensure regulatory processes are cost-effective and streamlined to accommodate changing utility business models.

ADM response

The OEB has tools available to it to enhance its performance-based regulatory processes. Such enhancements may incentivize LDCs to realize additional efficiencies. Potential enhancements may include:

- Increasing productivity and stretch factors to make LDCs realize more year-over-year productivity gains;
- Financial penalties for LDCs who do not meet performance expectations;
- Incentives to encourage LDC collaboration and partnerships to realize cost savings;

Opportunities also exist to modernize OEB regulatory compliance processes and streamline OEB processes to reduce regulatory costs and decrease time for regulatory decisions.

Conservation

Preamble: I've heard that when the Ministry plans for Ontario's electricity needs, conservation will be the first resource considered. You've said before that for every dollar invested in conservation programs, Ontarians have avoided about two dollars in costs to the electricity system.

Some of these initiatives are targeted to residential consumers and businesses, and I've heard from a few in my riding who have taken advantage of these conservation programs.

Q8: What conservation programs are available to promote affordability and give customers choices on how to increase the energy efficiency of their homes and businesses?

Minster response

Ontario has made great strides in transforming the electricity system into a clean, reliable and affordable electricity system.

Ontario's Conservation First policy and conservation programs are helping customers manage their energy bills, are offsetting system costs and are helping the Province achieve its greenhouse gas reduction targets.

Between 2005 and 2015, approximately $3.3 billion was invested in electricity conservation and demand management programs, including programs delivered by LDCs, the Ontario Power Authority (now IESO), and the Ministry of Energy's Home Energy Saving Program.

Between 2006 and 2015, electricity conservation programs and improvements in building codes and product efficiency standards helped Ontarians save:

- 13.5 TWh of electricity in 2015 – enough to power the cities of London, Kingston, Ottawa, Peterborough and Thunder Bay in 2015.

During the same time, the conservation programs delivered by Ontario's natural gas utilities saved over 1,700 million cubic meters of natural gas, equivalent to the natural gas used by over about 800,000 homes in a year.

Conservation programs are also resulting in significant GHG emission reductions. Electricity and natural gas conservation programs through the Conservation First

Framework, the Industrial Accelerator Program and the Demand Side Management Framework are expected to result in over 3.5 Megatonnes of GHG emission reductions in 2020. This is equivalent to taking over 800,000 cars off Ontario's roads for one year.

Through collaborative efforts by the IESO and the Demand Response Working Group, Ontario's demand response resources have grown significantly above the 2013 LTEP projections, and demand response has become a mature and competitive resource.

The IESO has successfully transitioned from securing demand response through multi-year contracts to an annual competitive demand response auction. The demand response auctions held in 2015 and 2016 reduced the cost of obtaining demand response by up to 27% when compared to previous contracts.

In order to further promote affordability, as part of the Ontario Fair Hydro Plan, this year my Ministry established an Affordability Fund to provide energy efficiency measures to Ontarians who do not qualify for low income conservation programs, and are unable to make energy efficiency improvements without support.

And, to improve the availability of conservation programs for low-income customers who are most in need, in August of this year I directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018. This program is expected to enhance and expand access to the Save on Energy Home Assistance Program.

My Ministry also remains committed to encouraging collaboration of conservation efforts among electricity and natural gas utilities, and working with the Ministry of Environment and Climate Change to provide a coordinated, one-window approach to existing conservation and new low-carbon technology programs offered by the Green Ontario Fund.

A coordinated approach is convenient for customers and can provide cost-efficiencies in program delivery.

To promote efficiencies and leverage IESO's significant program delivery expertise and resources, in August of this year I also issued direction to enable the IESO to support the design and delivery of Green Ontario Fund programs.

I'll ask the Deputy Minister, Serge Imbrogno, to speak in more detail about our important conservation programs and how they are promoting affordability by supporting Ontarians in improving their energy efficiency of their homes and businesses, and helping meet our climate change goals.

DM reponse

Thank you Minister.

Ontario's conservation and energy efficiency programs are helping Ontarians to manage their energy use and utility bills.

Conservation is the cleanest and most cost-effective energy resource. Historically, for every $1 invested in electricity efficiency programs, Ontarians have avoided about $2 in costs to the electricity system.

We know that conservation requires a sustained commitment to achieve ongoing savings over the long-term.

That's why on January 1, 2015, Ontario launched a six- year electricity Conservation First Framework, which is supporting the development of new and enhanced electricity conservation programs to meet local needs and offer more choice for consumers:

The Framework is expected to achieve 7 TWh of savings in 2020 and assist the province in achieving its long-term conservation target of 30 TWh in 2032.

In addition, on December 22, 2014, the Ontario Energy Board (OEB) released the six-year natural gas Demand Side Management Framework, doubling budgets and bringing Ontario's total spending on DSM in-line with leading jurisdictions.

Both these frameworks - The Conservation First Framework and the natural gas Demand Side Management Framework – are aligned to enable greater collaboration of conservation efforts among electricity and natural gas utilities.

And we are giving Ontarians more options. Outside of the conservation first and natural gas DSM frameworks, Ontario has a number of initiatives that contribute towards a clean, reliable and flexible electricity system. These include, but are not limited to:

Time-of-Use pricing pilots

As part of its review of the Regulated Price Plan, the OEB is working with electricity distributors to test innovative Time-of-Use price structures.

The results will help guide OEB decisions on potential new price plans that could give customers greater control, be better matched to their lifestyles and help improve system efficiency.

Demand Response auctions and Demand Response pilots

Demand Response, or DR, programs are continuing to reward electricity customers for reducing their electricity use at specific times of power system need.

The IESO is holding annual DR auctions, and conducting DR pilots to learn more about the operational capabilities of DR resources, and to assess the potential for DR to provide further benefits to the electricity system.

I'll ask the Assistant Deputy Minister of the Conservation and Renewable Energy Division, Kaili Sermat-Harding, to expand on the conservation and energy efficiency programs available in Ontario, as well as how these programs are benefitting Ontarians.

ADM reponse

Thank you. I am happy to expand on the details of the suite of conservation programs that are available in Ontario.

I'd like to start by highlighting electricity and natural gas conservation programs, and province-wide multi-fuel programs enabled through the Green Investment Fund.

Residential Electricity Programs

For residential customers, local electricity and natural gas distribution are delivering a suite of conservation programs.

Under the Save on Energy brand, and with support from the IESO, customers have access to:

- The **Save on Energy HEATING AND COOLING INCENTIVE**, which provides up to $850 in incentives for the purchase and installation of eligible central heating or cooling equipment through a participating contractor. Electrically heated homes can receive up to $4,000 rebates for high-efficiency heat pumps. The heating and cooling system is one of the biggest investments a homeowner will make.
    - Once the installation of central heating or cooling equipment is complete, a customer can save up to $325 a year on their electricity costs.
    - Electrically heating homes can save up to 50% on their heating costs by switching to high-efficiency heat pumps.

        - In addition, contractors can help customers program their heating and cooling system for different times of the day, offering further opportunities to save.

It is helpful to describe a participant's experience in the Heating and Cooling Incentive program:

        - The first step is to find a participating contractor on the Save on Energy website, which has a contractor look-up based on postal code, or by company name.
        - Step two is to install an eligible measure to make your home more comfortable and energy efficient. This could be a qualified high efficiency furnace, qualified central air conditioner, or qualified heat pump (if you have electric heating in your home).
        - The contractor will then submit an application on the participant's behalf. The contractor will send the application to the participant to confirm the application details, and so that the participant can submit proof of purchase.
        - The last step is for the participant to receive their rebate. A cheque will arrive in approximately four to eight weeks.

    - **Save on Energy Instant Discounts** are available starting October 6, 2017 at participating retailers for a wide variety of energy saving measures, such as LEDs, power bars and more. This program is taking the place of Coupons, which ends September 30.
    - **Save on Energy HOME ASSISTANCE PROGRAM** was developed to help income-eligible homeowners and tenants manage their energy use and costs by offering detailed in-home energy assessments, installing energy-saving measures at no cost, and advice on steps that can be taken to save even more energy.
        - Measures can include energy-saving light bulbs (LEDs), a power bar, low-flow showerhead and faucet aerators, new energy-efficient refrigerator or window air conditioner.
        - For electrically-heated homes, residents may be eligible for a programmable thermostat, weatherstripping around doors and windows, and additional insulation in the attic and basement.

- Social and assisted housing providers also qualify for assistance through this program to make their buildings more energy efficient.
- Further, in order to improve the availability of conservation programs that help low-income customers, in August of this year I directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018. This program is expected to enhance and expand access to the Save on Energy Home Assistance Program.
- On August 4, 2017, to further improve the availability of this program, the Minister directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018.
- It is expected that IESO delivery will result in enhancements and improved access to the Save on Energy Home Assistance Program.

I will describe a participant's experience in the HAP program:

To find out if they qualify, an interested customer would contact their local electricity distributor.

Once they've been deemed eligible, an HOME ASSISTANCE expert will make an appointment to visit their home. They'll review how the customer is using energy, including:

- what light bulbs they are using
- how old their major appliances are, and
- whether drafts are coming in through their doors, windows, attic or basement.

The HOME ASSISTANCE expert will also be able to advise if their home is eligible for a new, energy-efficient refrigerator or other appliance, such as a room air conditioner, or additional insulation in your attic or basement.

Through one or two additional appointments, the HOME ASSISTANCE expert will:

- give advice on changes to save energy,
- supply and install upgrades at no charge, and

- make sure the customer knows how to use all their new energy-saving upgrades correctly.

Utilities have also been innovating to help serve their customers better. As of May 2017 there are 10 new local programs in market and 20 pilots have been completed, are in market or under development. When a pilot or local program demonstrates good results and a cost-effective program idea, it can be adopted province-wide.

For example, Hydro One Networks launched the Heat Pump Advantage pilot program in Fall 2015 to help customers with electric space or water heating to take advantage of new cold-climate heat pump technologies. Enwin Utilities launched a similar heat pumps pilot in April 2016.

Results from these pilots helped to inform a March 2017 study by the IESO: on the opportunity for residential heat pumps in Ontario. The study found that residential heat pumps can help electrically-heated homes reduce their energy use for heating by up to 60%, and that there is near-term market potential for the technology in Ontario.

As a result of the pilots and the study two new province-wide initiatives have been launched:

- In May 2017, the IESO partnered with Enbridge Gas Distribution and Union Gas to test integrating electricity saving measures into the gas utilities' home audit and retrofit programs, expanding eligibility to electrically-heated homes and providing incentives for heat pump installations.
- And in July 2017, the Save on Energy Heating and Cooling Incentive Program was re-launched and now includes incentives for installing heat pumps in electrically-heated homes.

<u>Residential Natural Gas Programs</u>

There are also a number of programs available to residential natural gas customers under the **Demand Side Management Framework**.

- **Enbridge and Union Gas** are providing rebates to help qualifying home owners with rebates for energy assessments and home renovations to make energy efficiency improvements, including insulation in basements, walls, and attic, as well as air sealing.

- For example, the **Home Energy Conservation Program** and **Home Reno Rebate Program** offer between $1,600 and $5,000 cash back for eligible energy saving upgrades.

On February 4, 2016, Ontario announced a $100 million investment from the Green Investment Fund to enhance and expand the **Home Energy Conservation Program** and **Home Reno Rebate Program** delivered by Enbridge Gas Distribution and Union Gas. This investment enhanced the programs to be offered province-wide and to homes with primary heating by natural gas, oil, propane and wood.

This investment is expected to enable audits and retrofits of approximately 37,000 homes and save approximately 1.6 Megatonnes of cumulative lifetime greenhouse gas emissions, contributing to the province's GHG emissions reductions targets.

On May 31, 2017, the IESO launched a **Whole Home Pilot** in partnership with Enbridge Gas Distribution and Union Gas. . The pilot is testing the integration of incentives for electricity-saving measures in the home energy audit and retrofit programs funded through the DSM Framework and Ontario's Green Investment Fund, and the expansion of the program to electrically-heated homes.

The pilot is expected to be in market until December 31, 2017. The IESO will evaluate customer satisfaction, cost-effectiveness and program results to determine the future of this program enhancement.

Through these partnerships, every homeowner in Ontario can now benefit from a wide range of energy-saving rebates for the whole home. Ontarians can receive thousands of dollars in incentives through the Ontario Home Energy Conservation Incentive Program to get an energy assessment of their home and make upgrades throughout the house to use less energy – no matter how the home is heated.

The **Home Winterproofing Program** and **Home Weatherization Program** offer eligible low-income households a home energy assessment and insulation and draftproofing measures at no cost to help manage natural gas bills.

<u>Business Electricity Programs</u>

Now I'd like to turn our attention to the many programs we have for Ontario businesses.

The **Save on Energy for Business** electricity conservation program, made available through local distribution companies, with the support of the IESO, offers financial

incentives to help small businesses install energy-efficient equipment and improve the energy efficiency of their buildings.

There are several programs available to the commercial and institutional sector, including small businesses, municipalities, universities, schools and hospitals, through Save on Energy.

An energy audit is the first step in understanding how energy is being used in buildings. This will help to identify opportunities to reduce operating costs and improve performance.

Business customers are eligible for incentives to complete energy audits assessing the potential for energy savings through equipment replacement and operational practices.

The **AUDIT FUNDING** incentive is intended to cover up to 50% of the cost of an energy audit.

Under the **SMALL BUSINESS LIGHTING** program, qualifying businesses can get up to $2,000 in lighting upgrades.

Further upgrades to lighting, heating, ventilating and air conditioning (HVAC), and other systems can qualify for financial incentives worth up to 50% of project costs, through the **RETROFIT PROGRAM**.

The RETROFIT PROGRAM helps businesses install and benefit from newer, more energy-efficient solutions, allowing them to operate more efficiently and improve their bottom line.

Incentives are available for high-efficiency equipment such as lighting, motors and heating, and for installing new control systems to improve the overall efficiency of buildings.

Ontario is a leading jurisdiction in North America when it comes to cost-effective funding for energy managers. Energy managers have the technical expertise to identify and install energy-saving equipment and technologies. To ensure all businesses has access to energy managers, funding is provided through LDCs and the IESO for the following:

- The **LDC ENERGY MANAGER PROGRAM** serves businesses connected to the local distribution system
- The **INDUSTRIAL ACCELERATOR PROGRAM (IAP) ENERGY MANAGER PROGRAM**, delivered by the IESO,

serves businesses connected to the provincial transmission system

- The **MULTI-SITE CUSTOMER ENERGY MANAGER PROGRAM**, delivered by the IESO, provides centralized delivery for businesses with multiple sites connected to different LDC distribution systems
- The **SECTOR-BASED ENERGY MANAGER PROGRAM**, which is presently under development by the IESO, will provide energy manager funding to associations or businesses that serve a sector of Ontario's economy. Funding will be awarded based on a competitive procurement process.

For larger more complex projects and operations – for example industrial or institutional facilities, the Save on Energy **PROCESS AND SYSTEMS** program is designed to identify, implement, and validate energy efficiency projects from start to finish.

Incentives up to $50,000 are available for engineering studies and up to 70% of project costs for energy efficiency upgrades to reduce the payback period on large energy projects.

Home builders and renovators are encouraged to design and construct energy-efficient homes through **NEW HOME CONSTRUCTION** incentives for energy-saving measures.

And for those who own, operate, and manage buildings, **TRAINING AND SUPPORT** initiatives help provide access to the most up-to-date training, such as in building commissioning, certified measurement and verification, and how to be an energy manager.

Additionally, for those transmission-connected companies like our auto manufacturers, chemical, steel, and other large industry, the IESO's **Industrial Accelerator Program (IAP) provides** assistance to fast track capital investment in major energy conservation projects.

To enhance IAP delivery, following a December 2016 Minister's direction to the IESO, the distribution-connected sites of transmission-connected companies are now eligible to participate through the IAP program.

To summarize the IAP program offerings, the IAP is made up of four program streams:

- **RETROFIT PROGRAM**

- **PROCESS AND SYSTEMS PROGRAM**
- **HIGH PERFORMANCE NEW CONSTRUCTION**
- **MULTI-SITE CUSTOMER ENERGY MANAGER PROGRAM**

The **ENERGY PERFORMANCE PROGRAM INCENTIVES FOR MULTI-SITE BUSINESSES**, delivered by the IESO, provides centralized delivery for businesses with multiple sites connected to different LDC distribution systems.

The program encourages whole building energy performance improvements through incentives per kilowatt-hour of savings per year for up to four years.

This pay-for-performance model encourages participants who are able to make behavioural and operational changes alongside capital investment projects to achieve and grow energy savings over multiple years.

Business Natural Gas Programs

Ontario's two largest natural gas utilities, **Enbridge Gas Distribution and Union Gas**, also offer their business customers incentives to install energy-efficient equipment and improve the energy efficiency of their buildings.

They provide free services and financial incentives designed to help their customers make the most of the energy they consume. Enbridge and Union will work with their customers to design a solution that meets their customer energy needs and financial objectives

For example, Enbridge's **Energy Compass program** is a free benchmarking diagnostic service to help identify opportunities for capital and operational energy efficiency improvements in commercial buildings.

An Energy Compass report will:

- Provide recommendations for capital and operational improvements.
- Compare the energy performance of buildings in a portfolio.
- Identify buildings with higher-than-average natural gas consumption.
- Identify applicable Enbridge financial incentives that can offset the cost of making recommended energy-efficiency improvements.

Enbridge also offers its **Run It Right** program, which helps businesses to enhance existing building systems and operations to find energy efficiencies.

Unlike other incentives that require installing new equipment, the Run It Right program analyzes a building's energy performance in three simple steps to identify, implement and monitor low- and no-cost operational improvements that can lead to up to five per cent energy savings.

Both Enbridge and Union Gas provide custom and fixed **retrofit** incentives for efficient building equipment and systems retrofits such as space heating, water heating and food services.

Space Heating retrofit options are broad and include:

- Air Curtains
- Demand Control Ventilation
- Condensing Boilers, High-Efficiency Boilers, and High-Efficiency Boilers Energy and Heat Recovery Ventilation
- Infrared Heaters
- Condensing Make-Up Air Units

Water Heating retrofit options include ozone laundry systems, Energy Star dishwashers, condensing boilers and gas water heaters.

And retrofits for Food Services include demand control kitchen ventilation systems, and Energy Star qualified dishwashers and fryers and under-fired broiler.

<u>Mid-Term Review of CFF and DSM Frameworks</u>

As the Deputy Minister mentioned, the IESO and OEB are undertaking mid-term reviews of the electricity and natural gas conservation frameworks.

The IESO's Mid-Term Review of the Conservation First Framework and the Industrial Accelerator Program is focusing on conservation targets and budgets, lessons learned on LDC funding models, customer needs, conservation integration with regional planning. It will also look at alignment with Climate Change Action Plan (CCAP) initiatives and post-2020 approaches to energy efficiency.

In order to complete the review, the IESO completed an **Achievable Potential study** for electricity conservation in Ontario.

The Achievable Potential study was released on June 30, 2016 and found a potential of 7.4 TWh of savings that could be achieved by 2020 within the existing CFF budget - higher than the 7 TWh savings target currently established for 2020.

The IESO will use this study during their Mid Term Review as well as in their regional planning and long term energy planning processes.

In June 2017, the OEB initiated the mid-term review of the DSM Framework for natural gas conservation programs, which is expected to be completed by December 1, 2018. The review is looking at gas utility budgets and targets, as well as how the programs are meeting customer needs and interactions with Ontario's cap and trade program.

Demand Response

Business and residential customers may also be able to participate in demand response programs. Demand response programs reward electricity customers for reducing their electricity use at specific times of power system need. An example of demand response is a factory temporarily halting a process, or a group of residential consumers reducing their air conditioning when electricity demand is high.

IESO's second demand response auction in December 2016 procured approximately 455 MW for the summer commitment period (May 2017 to October 2017) and approximately 478 MW for the winter commitment period (November 2017 to April 2018).

Successful participants in the 2016 demand response auction include demand response aggregators (EnerNOC, Enershift/Rodan, NRG Curtailment Solutions, Ohmconnect, GC Project LP) and industrial consumers (Tembec, Resolute, Gerdau Ameristeel).

For the first time since the launch of the DR auction, a residential DR aggregator (OhmConnect) was successful in procuring DR capacity (1 MW capacity) in the 2016 DR auction. IESO is continuing to work with stakeholders to facilitate further participation of residential DR in future DR auctions.

The IESO is also running demand response pilot projects to learn more about the operational capabilities of demand response.

The next demand response auction is expected to take place in December 2017.

Affordability Fund

As the Minister and Deputy Minister mentioned, the government established the Affordability Fund as a part of the Ontario Fair Hydro Plan. The Affordability Fund will

provide energy efficiency measures to electricity residential customers who do not qualify for the Save on Energy Home Assistance Program and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and facilitate efficient distribution of funds to electricity distributors.

Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of low income organizations, in establishing eligibility criteria and guidance on funding allocation methodology. Program details are currently being finalized by the Trust.

The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.

It is expected that distributors will be able to start applying for funds this fall.

Green Ontario Fund

I have shared examples of the variety of conservation programs available, and ways our agency is now looking into further ensuring programs are meeting customer needs. Now I'd like to close with some words about how our Ministry is working with the Ministry of Environment and Climate Change to help further expand energy choices for Ontarians, and help the Province reach its GHG reduction targets.

The Ministry is committed to encouraging collaboration of conservation efforts among electricity and natural gas utilities, and working with the Ministry of Environment and Climate Change to provide a coordinated, one-window approach to existing conservation and new low-carbon technology programs offered by the Green Ontario Fund.

The Ministry of Energy also continues to work closely with its agencies and MOECC to support implementation of Green Ontario Fund programs.

In August 2017, the Ministry also directed the IESO to work with the MOECC and the Green Ontario Fund to support the design and delivery of Green Ontario Fund Programs. with a focus on reducing greenhouse gas emissions associated with energy usage and energy sources from Ontario residents and businesses.

IESO is offering its expertise, resources and infrastructure to support the Green Ontario Fund.

On August 30, 2017, Ontario launched the **Green Ontario Fund** and the **GreenON website**, a one-stop-shop to programs and rebates to reduce energy costs and help fight climate change.

On the same day, the Green Ontario Fund also launched the **GreenON Installations program**, which provides, for a limited time, a free home energy review and smart thermostat for eligible homes.

Coordination of Green Ontario Fund programs with existing conservation and energy efficiency programs will expand the offerings for customers and help achieve the government's energy savings and GHG emissions targets.

Closing

Ontario homes and businesses can take action to manage their energy bills by participating in Ontario's suite of conservation and energy efficiency programs.

The Ministry of Energy will continue to work with its agencies to ensure there are programs in market that are meeting the needs of Ontarians.

We will also continue to support MOECC to promote a coordinated, one-window approach to existing conservation and new Green Ontario Fund programs.

Smart Meters, Smart Grid and Grid Modernization

Preamble: Minister, you've mentioned in your lead-off that our government has had to make significant investments into our electricity system to make it more reliable. I believe that a part of these investments include smart meters and the smart grid. Several constituents in my riding have raised concerns about smart-meters, saying they don't understand why they were installed in the first place. And while I'm a little bit familiar with smart meters, and have heard that they help us conserve energy and drive costs down, I'm less clear on what the smart grid does.

Q9: Could you please explain what a smart meter does, what the smart grid is, and how they are advancing grid modernization in the province?

Ministers Response

The smart meters installed for nearly all of Ontario's residential and small business customers enable time-of-use pricing, giving Ontarians a tool to manage their electricity costs.

Smart meters are also helping electric utilities respond quickly to outages.

Smart meters, however, are only the first step in building a smart, modern grid for Ontario. The basic infrastructure delivering electricity to Ontarians has largely remained unchanged for decades.

New smart grid and grid modernizing technologies – including sensors, smart meters, and communications infrastructure – can provide the data and information needed to encourage new business models and enable customer choice.

These technologies can also benefit consumers and distribution companies through better reliability, improved asset performance, and resiliency to external events.

Grid modernization will enable Ontarians to realize the full value of emerging technologies and applications such as electric vehicles, electricity storage, and home energy automation systems.

These value propositions are enabled by our early investments in smart meters. They are a catalyst for modernizing our energy infrastructure and for providing customers with greater visibility and control of their energy use.

DM Response

Ontario has defined the smart grid as "the advanced information exchange systems and equipment that – when utilized together – improve the flexibility, security, reliability, efficiency, and safety of the integrated power system and distribution systems."

This definition is important. The focus of any efforts to modernize our electricity system – which includes the wires, the transformer stations, and utilities – must be done in a way that improves this infrastructure and provide better service to customers.

Smart meters are the platform upon which these improvements are being built. With the old, outdated analog meters, utilities had limited information about how consumers were using electricity over time, and the pressures that this energy demand exerted on the overall system.

With smart meters now in place, utilities are now empowered with information to manage their systems more efficiently and design better programs for customers. But more importantly, customers now have a new platform to become proactive consumers.

Time-of-Use, Green Button, and intelligent thermostats – these technologies are enabled by smarter infrastructure and a modern grid.

ADM Response

A smart meter is a digital meter that measures a consumer's electricity consumption on a time-interval basis and remotely relays it back to the Local Distribution Company (LDC) for billing purposes.

The primary difference between a smart meter and an analog meter – what was used by residential and small businesses prior to the Smart Metering Initiative – is how power consumption is tracked.

With analog meters, there was no means for utilities to track energy consumption remotely. Utility service workers would periodically take meter readings, which were used to determine how much power was consumed and what to charge. Customers could also report their usage in the same way.

Smart meters changed this approach. They are able to measure usage with significant accuracy and can remotely transmit this information to utilities using information and communication technology systems, not unlike how your mobile phone works.

This provides nearly instant information to the utility, and as I will describe in a moment, can do the same for customers through initiatives like Green Button. Smart meters are also the foundation for a Smart Grid and can help identify and eliminate service interruptions.

Over 4.8 million smart meters are being used to enable time-of-use pricing – the price we pay for electricity now better reflects the cost of producing it at peak and off-peak times.

With time-of-use, customers have the ability to better manage their costs by reducing or shifting their consumption to off-peak times when electricity is less expensive to produce. Doing this reduces Ontario's overall peak demand which provides environmental benefits, and means we can defer or avoid costs to invest new generation infrastructure.

Time-of-use pricing is regulated through the OEB's Regulated Price Plan, or RPP.

On November 16, 2015, the OEB released its RPP Roadmap identifying a 5-point plan for making changes to the RPP to better respond to policy objectives, improve system efficiency, and give consumers greater control. The OEB expects to implement this plan over the next 3 to 5 years.

Among their considerations are the following:

- Updating the RPP objectives to place a greater focus on peak demand reduction, efficient system operation and long-run system costs.
- Exploring opportunities to improve time-of-use communication, launch benchmarking pilots and undertake data collection initiatives aimed at enhancing consumer understanding and ability to respond to a pricing plan.
- Designing and executing pilots to assess customer response to alternative price structures.
- Undertaking a significant data collection initiative to better understand the needs of small business consumers.
- Working with the government and IESO to reduce barriers to set optimal pricing.

The OEB is undertaking TOU pilots as a part of its review of the RPP. The pilots include both price and non-price elements to satisfy two of the objectives of the RPP Review: implementing price pilots and empowering consumers. Pilots have begun rolling out and will run for at least one calendar year. The results of the pilots will inform future OEB decisions on offering customers choice between different TOU price plans province wide.

Smart meters greater benefits than just time-of-use pricing.

Smart meters are also helping electric utilities pin-point and respond more quickly to outages. They are giving utilities the granular information they need to monitor, operate and plan the system more efficiently.

By remotely and securely transmitting hourly meter reads, smart meters allow LDCs to deliver electricity to consumers more efficiently by reducing the requirement for manual meter readings and estimated bills. Other operational benefits for LDCs include enhanced grid visibility, improved outage management and more informed system planning.

Smart meters also facilitate participation in conservation and demand response programs which are designed to help consumers better manage their usage while simultaneously helping to manage demands on the system.

Smart meters are part of and the foundation for a smart grid, which will enable Ontarians to realize the full value of emerging technologies and applications such as electric vehicles, sto, and home energy automation systems.

A ‘smart grid’ uses modern sensors, monitoring, communications, automation, and computer systems to improve the flexibility, reliability and efficiency of the electricity system.

It can address many of the challenges our LDCs currently face.

For instance, with some assets in place for over 50 years, there is a need to refurbish or replace with new investments as necessary to meet system growth.

As infrastructure typically incurs high capital costs, utilities can look to smart grid technology for look for opportunities to leverage solutions that continue to maximize the use of existing assets.

Smart grid technologies can help increase the resilience of the distribution grid. This will help Ontario’s LDCs address extreme weather events.

In 2015, weather was the next most common reason for power outages in Toronto (after equipment failures and loss of supply from the transmission system).

On the weekend of December 21-22, 2013, a significant ice storm moved through Southern Ontario. Ice accumulation resulted in downed branches, trees and power lines, which resulted in over 500,000 customers losing power in Ontario.

There is a strong business case for continued investment in the smart grid.

According to Navigant’s *Smart Grid Roadmap*, if Ontario continues to invest in smart grid through 2035, the province can realize a net present value of $6.3B net present value by 2045.

This means building on our investment in smart meters, leveraging the infrastructure in place to build a modern grid for Ontarians.

Grid modernization involves changing from the traditional “analog” system to one that is digital, using sensors and modern communications to gather key data about how the system is working.

A modern grid can provide a number of important services for Ontarians:

- It can give customers more control of their energy use, and to interact with the system instead of just consuming power;

- It can provide much greater visibility, allowing utilities to see how their system is working in real time so they can quickly address problems and plan a more

efficient system; and

- And it can integrate new technologies – like energy storage, EVs, home energy automation systems, and renewable generation – in a way that both helps Ontarians control their energy use and optimizes the operation of our distribution grids.

Through the *Smart Grid Roadmap*, other independent studies, and feedback during our Long-Term Energy Plan engagements, we have heard that there are barriers to grid modernization. These technologies are much different than the ones made by our distribution companies over the last decades, and new to regulatory oversight.

Ontario's electricity sector faces barriers in incorporating these technologies where they make sense, including those of a cultural, technical, and regulatory nature. Moving forward, Ontario's approach to grid modernization is about exploring and addressing these barriers. In doing so, the Ministry and its agencies will aim to create the right environment for LDCs to make the best decisions for their systems and their customers. Enabling these investments will allow Ontario's LDCs to get even more value out of our smart meter deployment.

Other elements of a modern Ontario grid include the Smart Grid Fund, energy storage, meter data management, and electric vehicle integration.

The Smart Grid Fund provides financial resources to help companies, electricity utilities and organizations to demonstrate and commercialize the next generation of smart grid solutions by:

- Developing and advancing the smart grid in Ontario in the near term (improving reliability and flexibility of the electricity grid)
- Creating economic development opportunities and jobs for Ontario
- Reducing risk and uncertainty of important electricity sector investments.

There are 38 projects supported by Smart Grid Fund representing $50M for a total sector investment of approximately $200M.

These projects cover the following technology areas: grid automation, data management, home energy management, electric vehicles, electricity storage, microgrids and cyber security.

A third call for applications to the SGF launched on October 7, 2015. These projects are now underway.

Many of these technology focus areas were identified as high-value propositions by Navigant's *Smart Grid Roadmap*.

Meter data management is also part of the Ontario Smart Grid.

The province's Meter Data Management and Repository (MDMR) is the central system that stores and processes data for all smart meters in Ontario. The IESO, in keeping with its designation as the Smart Metering Entity (SME), is currently responsible for housing and operating the MDMR.

The MDMR receives hourly time and date-stamped meter reads from smart meters and performs a process referred to as Validating, Estimation and Editing (VEE) in order to return TOU framed data to LDCs for customer billing.

Every day, the MDMR receives between 100-120 million meter reads from residential and small business customers and processes between 200,000 – 300,000 billing requests from LDCs.

Ontario is also acting to leverage the data within the MDMR to realize the benefits to consumers from this consumption data, in particular by making non-personal information available to third parties to assist them in developing new innovative products and services that will enhance customer choice and control.

On January 26, 2016, the OEB issued an Order requiring that the SME expand the scope of data the MDMR collects.

To fulfill this mandate, the OEB has ordered the SME to begin collecting additional information, such as:

- Postal code.
- Distributer rate class.
- Commodity rate class.
- Occupant change data.

The SME started collecting this data on January 1, 2017.

This year, the SME established the Data Strategy Advisory Council to provide input in the review and development of products and processes for the implementation of third party access to MDMR data. Ministry staff are observers on the Council, which is currently focused on completing a privacy review of MDMR data, preparing several pilot projects, and establishing a framework for broad stakeholder engagement.

Throughout the design, implementation, and operation process, the SME will be guided by the Information and Privacy Commissioner's Privacy by Design principles, ensuring the anonymity of smart meter data, and security and privacy for Ontarians.

This third-party access platform is expected to launch in 2018.

The SME has also filed an application with the OEB for a reduced Smart Metering Entity Charge. This charge is included in the electricity bills of Ontario's residential and small business customers. If approved, the Smart Metering Charge will go down to $0.59 per month, a reduction of $0.20. The SME will contintue to provide its core functionality – storing, verifying, and transforming smart meter data into time-of-use data – and implment the third party access platform, all at a reduced rate for Ontario's ratepayers.

Renewable Energy for Residential

Preamble: In the 2013 Long-Term Energy Plan (LTEP), your ministry committed to examining the potential of transitioning the microFIT program from a generation purchasing program to net metering. Net metering is different, as it allows you to send electricity generated from renewable sources to the distribution system for a credit towards your electricity costs.

I've also heard that this year the microFIT and FIT program will be winding down. However, my constituents are still interested in generating their own electricity from renewable energy.

Q10: Minister, could you please describe what opportunities homeowners and communities have to generate their own electricity from renewable energy?

<u>Minister response</u>

The rapid growth of Ontario's clean tech and renewable energy sectors has attracted billions of dollars in investment to Ontario and led to the creation of thousands of new jobs.

As Ontario looks towards the future, green energy will remain an important part of both our electricity supply mix and our economy, supporting jobs and growth across the province.

As the FIT and microFIT programs wind down at the end of this year, Ontario is transitioning to a net metering framework to provide opportunities for homeowners,

businesses and communities to continue to play a part in Ontario's clean energy future by generating their own electricity from renewable energy.

We engaged stakeholders and in July we updated the net metering regulation to remove the 500 kW project capacity size limit and clarify the ability to pair energy storage with renewable energy systems.

The updated regulation provides greater opportunities for larger commercial and industrial electricity customers and clarity for combining energy storage technology with renewable generation, as well as streamlining other aspects of how net metering is delivered in the province.

The Ministry has also been examining potential additional net metering updates related to third-party ownership of net-metered generation and inclusion of virtual net metering in Ontario's net metering framework.

The Ministry has engaged stakeholders and Indigenous groups on these potential updates and has incorporated their feedback as policy options are considered.

An enhanced net metering framework will provide a platform for future innovation in clean, distributed energy and put the province at the forefront of renewable energy integration in Canada.

I'll ask Deputy Minister Serge Imbrogno, to provide some additional information about this important work.

DM response

Thank you Minister.

Net metering is a billing arrangement that allows customers to generate renewable energy onsite for their own use, and to receive bill credits for extra electricity that they send to the grid.

Under a net metering arrangement, a customer, such as a homeowner or business, can generate electricity from a renewable source while still drawing electricity from the local distribution grid when needed.

On July 1, 2017 amendments to the Net Metering regulation came into force. The changes to the net metering regulation – including, for example, removing the 500 kW size limit for projects and allowing for energy storage equipment to be paired with the renewable generation technology – are significantly broadening the opportunities

available to Ontario electricity consumers to generate their own electricity from renewable sources, such as solar, wind, biomass and hydro.

By facilitating the uptake of renewable energy to offset electricity demand, net metering also supports initiatives under the Government's 2016-2020 Climate Change Action Plan, such as enabling households, institutions and businesses, to move to net zero energy homes and buildings.

And since net metering generation capacity is sited at or close to load, over time it can help reduce peak demand and the need to invest in additional generation capacity or certain grid infrastructure.

Beginning in early 2017 the Ministry initiated a series of engagement activities on different approaches to further enhancing net metering. Two themes that emerged were Third Party Ownership of net metering facilities and Virtual Net Metering.

Third party ownership would improve the ability of companies to provide renewable energy products and services to homeowners, communities or businesses that wish to net meter.

Virtual net metering would allow customers who may not be able to install their own on-site renewable energy systems to participate in renewable energy projects located off-site, for example, apartment or condo residents.

The Ministry has been examining these potential net metering enhancements while also keeping in mind potential impacts and objectives, such as ensuring value to the system and avoiding cost-shifting within the rate base.

We look forward to sharing the Province's next steps and policy direction on net metering in the upcoming Long-Term Energy Plan.

I'll now ask ADM Kaili Sermat-Harding, to outline in more detail the work we have done to improve net metering and the work that is ongoing that would further exnd net metering opportunities.

ADM response

Thank you Deputy, I am pleased to have the opportunity to discuss how we continue to look for opportunities to enhance the net metering framework to improve customer access to renewable energy and enable innovative net metering business models.

Net metering is enabled through regulation (O. Reg. 541/05: Net Metering), which requires electricity distributors to offer net metering to their customers upon request. The Net Metering Regulation has been in place since 2005.

Ontario electricity consumers can participate in net metering by applying to their Local Distribution Company (LDC) to connect solar panels, or other renewable generation, to their home, business or community building to offset their electricity use and be eligible to be billed on a net-metered basis.

Ontario's 2013 LTEP committed the Ministry to "examine the potential for microFIT to transition from a generation purchasing program to a net metering program" and recognized the opportunity to expand and enhance the existing net metering framework.

Further direction on the transition of the microFIT program to net metering was outlined in the Minister of Energy's 2016 Mandate Letter, which provided that the FIT and microFIT standard offer programs would wind down, and updating and streamlining the net metering framework could reduce load on the electricity system and enable innovative technologies and customer-utility relationships.

In July 2016, after analysis and consideration of stakeholder feedback, Ministry staff presented a phased approach to updating the net metering framework for government consideration:

- The Part 1 Updates were to include near-term regulatory updates under existing regulatory authority, and;
- Part 2 Updates would involve additional potential updates to the net metering framework that would require legislative as well as regulatory amendments to implement.

Part 1 Updates

On August 19, 2016, the Ministry posted proposed amendments to the Net Metering regulation on the Environmental and Regulatory Registries for public comment.

On February 8, 2017, the approved Part 1 amendments were filed and posted on e-laws. The amendments came into force on July 1, 2017 and included:

- Removal of the 500 kilowatt (kW) project capacity size limit to allow for any sized renewable energy generation system, subject to the system being used primarily for the generator's own use;

- Allowing for the use of energy storage and its recognition for the purposes of net metering;
- Clarification that the valuation of bill credits from exported generation will remain consistent with the rate the customer is charged for electricity consumed;
- Clarification of the carryover period for bill credits at a consecutive 12 month period; and
- Allowing participants with existing net metering agreements to choose to opt into the updated terms, or to maintain their existing agreements.

The August 2016 Environmental and Regulatory posting also communicated several non-regulatory actions to be taken by the Ministry and the OEB.

Ministry actions included:

- Undertaking a cost-benefit analysis to determine whether investments in Ontario's Meter Data Management and Repository should be made to enable time-of-use (TOU) billing;
- Improving the availability of net metering program information; and
- Undertaking a cost-benefit evaluation of the program every three years, if required, coinciding with the Long-Term Energy Plan cycle.

OEB actions included:

- Developing a standardized net metering application and agreement, with consideration for streamlining processes;
- Collecting net metering information from electricity distributors at more frequent intervals to monitor implementation of the initiative; and
- Improving the availability of net metering program information.

The Ministry has taken steps to meet the non-regulatory commitments in the Environmental and Regulatory Registries posting, including:

- In June, 2017 the Ministry initiated engagement with LDCs and the IESO on a cost-benefit analysis for implementing TOU billing, and;

The Ministry has made more information on net metering available on its website and will continue to engage the OEB on improving net metering information available to LDCs and the public.

The OEB is undertaking the following steps to meet its commitments:

- On May 25, 2017, the OEB issued a Notice of Amendment to the Distribution System Code (DSC) to ensure requirements in the Code for net metering are consistent with the amended net metering regulation.

The OEB is also conducting their own Net Metering Consultations with LDCs and has formed a Net Metering Working Group. The consultations are intended to inform approaches to:

- Improving the availability of information on net metering;
- Improving process efficiency by ‘standardizing’ net metering applications and agreements;
- Enhancing how net metering activity is tracked via the OEB’s Reporting and Record-Keeping Requirements (RRR);
- Modifying the DSC in relation to the maximum cumulative generating capacity from net metered generators; and
- Managing and recovering distributor administrative costs related to net metering.

Part 2 Updates

Third-party Ownership (TPO) and Virtual Net Metering (VNM) emerged during stakeholder consultations for Part 1 Updates as two potential areas for further enhancements to Ontario's net metering framework.

- TPO arrangements involve third parties owning and operating net-metered renewable generation systems located at electricity customer sites and selling the power generated to the customer. This could provide a property owner with an opportunity to participate in a net metering project without incurring the upfront capital cost of installing the system or the obligation to maintain the system.
- VNM involves net metering of generation that is not located at the customer site and selling power "virtually" to one or more participants, who receive a credit on their electricity bills for a power the system exports to the grid. VNM projects can enable larger scale projects with participation of many customers. VNM could expand participation in net metering to include condos, apartments, co-ops, and other shared generation arrangements, thereby providing greater consumer access to renewable energy.

In early 2017, the Ministry held specific stakeholder consultations on TPO and VNM, including a public webinar, stakeholder questionnaire, targeted meetings with stakeholders and Indigenous groups and continued engagement with our Advisory Working Group, we received input.

Stakeholder Engagement

Outcomes of the Ministry's stakeholder and Indigenous engagement have informed policy options.

On Third-Party Ownership (TPO) we heard that:

- The renewable energy industry supports TPO, citing it as important to continued activity in Ontario;
- The business models, target markets and project configurations the sector is contemplating would largely be enabled by eligibility of TPO in Ontario's net metering framework, leading to new business opportunities;

- LDCs, and LDC affiliates, support TPO, subject to appropriate consumer protection measures and clearly defined relationships between LDCs, customers and TPOs.

On Virtual Net Metering (VNM) we heard that:

- There was support from municipalities for a VNM framework that included municipal and institutional buildings.
- LDCs were supportive of VNM, depending on scoping and implementation but expressed some concerns about billing and administrative challenges to accommodate complex VNM projects;
- The renewable energy sector supports VNM as it could enable large projects (up to 10MW) that could be marketed as community net metering to large numbers of customers, and;
- Flexibility for VNM demonstration projects was suggested by some LDCs and industry proponents as an alternative to implementing a regulatory requirement for VNM;

The Ministry continues to engage with the OEB on implementation considerations and consumer protection.

Time of Use (TOU) Compensation for Net-Metered Customers

ENERGY is considering the costs and benefits of enabling TOU settlement for net-metered customers in Ontario. Net-metered customers are currently settled using tiered rates due to limitations with the province's Meter Data Management and Repository (MDM/R).

ENERGY has issued a survey to all LDCs to collect data on the costs and benefits of implementing TOU settlement and is also currently engaged with the IESO Smart Metering Entity (SME) to determine the costs of upgrades to the MDMR. The survey period has now closed and 27 responses were received.

We are aiming to complete our analysis later this year.

Conclusion

The extent of the work the Ministry is undertaking demonstrates a measured approach to enhancing the Province's net metering framework and a commitment to evidence-

based policy that considers all potential benefits and cost impacts to electricity distributors, ratepayers, and business.

It also demonstrates the level of interest in these changes from the sector, customers and LDCs alike. As customer needs and utility business models evolve, net metering will play an important role in the way we consume electricity and in the way it is supplied. Ontario is taking a leadership role in developing the policies that balance the need for clean, reliable and affordable energy now and in the future.

As the Deputy has mentioned, the upcoming LTEP scheduled to be released this fall will provide detail on the additional changes to the province's net metering framework that are being proposed at this time.

Energy Storage

Preamble: The action your Ministry has taken in eliminating coal and supporting renewable generation has been remarkable. But I have also heard that many of our renewable generation sources, such as solar and wind, are intermittent generation sources. This means that they are not always available to generate electricity. Wind Turbines for instance, generate mostly at night, while solar panels generate during the day.

But electricity storage technology can help with this. I've heard from several constituents about electricity storage solutions, such as pumped storage and batteries, and how we could harness tem to increase reliability.

Q11: Could you please tell us whether the government is moving forward with Electricity Storage solutions and/or ideas?

<u>Minister response</u>

Energy storage technologies have the potential to revolutionize the electricity system, increasing its efficiency, lowering costs and increasing reliability for the consumer.

The IESO has completed procurement of 50MW of energy storage projects that will demonstrate the ability of energy storage to provide ancillary services to support the electricity system. The first of these projects should come into service later this year.

The IESO has published a report on the opportunities for energy storage to provide services to the Ontario electricity system. The Ministry has commissioned a further report on the opportunities for energy storage within the distribution networks. From

these reports, we learned that there are significant opportunities for energy storage to provide services to Ontario's grid in the coming decades.

Our efforts have led us to recognize that barriers remain to gain full value from energy storage and allow it to compete fairly with other technologies. Accordingly, we will move to amend government regulations to address charges that inhibit the ability of energy storage to compete fairly with other technologies, including how these facilties are charged Global Adjustment. This is just one way we continue to apply the lessons from our studies and our 50MW procurement to support energy storage in a prudent way.

DM response

Electricity production must be matched to consumption at all times, and flexible sources of generation are dispatched by the system operator to maintain this balance.

Storage changes this dynamic for the electricity sector. We're all aware of energy storage in more conventional forms – fuels like coal and gasoline – and even hydroelectric storage through reservoirs and pumped storage facilities that store water for later use.

However, old technologies like batteries are changing, and new technologies like flywheels and compressed air storage are now being tested to better understand how the work on the system.

Ontario is one of these leaders in energy storage. What works in one jurisdiction may not work in another, so in order to discover how energy storage could benefit Ontario's electricity system, the province has moved forward on several different initiatives to build this knowledge.

These steps – a targeted energy storage procurement, independent studies, innovation funding – show a prudent and balanced approach to building our knowledge of how storage can work on Ontario's grid. These learnings will instruct the path forward for energy storage in Ontario.

ADM response

I would like to step back a bit and provide some more details. Energy storage is a promising technology that has a number of different applications for Ontario's electricity system:

- It can be used to help balance electricity supply and demand on a second-by-second basis;
- It can balance the intermittency inherent in solar and wind generation, increasing the value of our renewable assets to the system;
- It can help improve system reliability;
- If appropriately located, it can defer the need to replace system assets; and,
- It can provide other technical services, such as voltage control.

In the last Long-Term Energy Plan, the government committed to including storage technologies in our procurement process, starting with 50 MW of storage.

The Independent Electricity System Operator (IESO) completed the 50 MW procurement over two phases.

In Phase 1, 33.5MW of storage was procured from 5 providers with 12 different projects. Four different types of technologies were represented in this phase: flywheel, hydrogen, thermal, and battery storage.

These technologies are expected to come online by the end of the year and provide regulation and voltage control for the IESO grid.

In Phase 2, 16.75 MW of storage was procured from 4 providers with to 9 different projects.

Three different types of technologies were represented in this phase: flow batteries, solid batteries, and compressed air energy storage.

The purpose of this second stage is to provide long-term capacity services to Ontario's grid. These projects are expected to come online in late 2018.

Ontario's procurement is unique, because of its quick implementation and its competitive framework.

This procurement was based on a real commercial process, similar to those applied to contracting for energy service for the Ontario market, with concrete commercial terms of operation and performance requirements.

Consider just four types of technology:

- An example of a Flywheel project is one in Harriston, where the company NRStor is using Temporal Power's flywheel system to provide regulation services to the Ontario grid. This is the first first grid-connected commercial flywheel facility in Canada, and has now led to Temporal Power's first export success to the island of Aruba.
- Batteries: Thanks to eCamion and Toronto Hydro, we have the first energy storage system installed directly into an urban community, at the Roding Arena and Community Centre in North York. A system like this one, which can power a community centre, a light industrial complex or small residential street, can lessen the strain on the system at times when we're experiencing peak demand.
- Underwater compressed air: This utility-scale solution promises to hold power for weeks without losing capacity. Another Ontario company, HydroStor, is leading the way on this one, collaborating with Toronto Hydro on the world’s first underwater compressed air storage project, located near the Toronto Islands.
- Pumped storage: Ontario Power Generation's Adam Beck facility is the largest and most flexible energy storage facility in Canada. The reservoir will hold 20 million cubic metres of water, and can do the work of 600 MW of fossil fuel generation for up to eight hours. With its recent refirbishment, we can look forward to another 50 years of service from this facility.

The Ministry also committed in the Long-Term Energy Plan to study the value of energy storage and its many applications.

In March of this year, the IESO completed a study on the benefits of storage to the bulk system.

The IESO report found that Energy storage technologies can be used to provide some of the services needed to reliably operate the power system.

Energy storage could also help improve the utilization of existing transmission and distribution assets by deferring some costs associated with their upgrades or refurbishments, as well as improve the quality of electricity supply in certain areas of the system by controlling local voltages.

That said, energy storage needs to be considered as complimentary to our current assets that provide services to the grid. Its also important to note that location and energy storage technology types are important considerations in understanding their value for a particular service to our bulk system.

The Ministry is has recently completed a study to understand the potential value of energy storage at the distribution level, which we will soon release.

This report found that beyond grid services, energy storage can be effective in helping large energy customers to reduce their electricity bills.

Both of these studies highlight that while the cost of energy storage devices are going down, they remain expensive. Further, they can provide a range of different benefits, but realizing those benefits depends a great deal on how the electricity system is structured, operated, and regulated.

The government is also committed to address barriers that limit the ability of energy storage technologies to compete in Ontario's electricity market.

For example, the OEB has created a new asset class for storage, while recent changes to Ontario's net metering framework now explicitly permit energy storage coupled with renewable energy to participate in the program.

There are other barriers that the Ministry continue to investigate. For example, our study on energy storage on distribution networks found that the way in which Global Adjustment charges are applied to energy storage is the single biggest regulatory barrier to the use of energy storage at low voltages, and that addressing the treatment of Global Adjustment for energy storage would substantially improve its competitiveness.

The Global Adjustment is just one barrier that the Ministry plans to address in the coming weeks. Some energy storage applications may be charged Global Adjustment on the energy they take from the grid, but are not reimbursed for the energy they return. Meanwhile, the end-customer who consumes the energy released by the storage facility pays Global Adjustment as well – meaning that we are collecting the fee twice. This reduces the competiveness of energy storage, and fails to recongize the value it provides to the grid by releasing energy during times of peak demand.

The Ministry plans to move ahead to amend the regulation that governs the Global Adjustment to address this issue, and ensure that energy storage can compete on a level playing field with other technologies.

This is just one of the barriers that energy storage faces in Ontario. Ministry and agency staff will continue to work to find a clear path forward on these issues.

The Ministry is also encouraging storage technology through our Smart Grid Fund. One of the key elements of the Smart Grid Fund is to focus support on demonstrating technologies that have commercial applications domestically and abroad.

Several of the Ministry's Smart Grid Fund projects include energy storage. Here are just a few:

eCamion is developing three storage in Toronto, Sudbury, and Ottawa. Each of these projects is unique and will help eCamion to demonstrate the value of storage under different applications. In November 2016, the Minister opened the Sudbury site. This technology uses three energy sources: solar panels, a battery bank to store the power, and electricity from the Greater Sudbury Hydro's local distribution grid. This project will help Science North – Canada's second-largest science centre – reduce its dependence on the electricity grid and gain greater influence over their consumption.

Ryerson's Centre for Urban Energy is working with Toronto Hydro to test a world-first, pole-mounted storage device. Since it is mounted on a pole, this device has no footprint. The unit intellegently charges during off-peak times, and provides electricity during peak hours to support a nearby transformer.

Other projects include Panasonic's efforts to include a battery into a larger microgrid at University of Ontario Institute of Technology to support reliability and resiliency on campus. Renewable Energy Systems is developing an energy storage system to support a local distribution company's substation. Upon completion, this project will not only improve the quality of supply for those customers connected to the substation. It will allow the LDC to defer investment that would otherwise be necessary to upgrade the substation.

These initiatives will provide a much better understanding of the value of energy storage on Ontario's electricity systems, information that is critical to determine the path forward for this technology in the province.

As you know, the Ministry will soon release the next Long-Term Energy Plan. It will build on our learnings from our prudent approach to energy storage. Like other non-wires alteratives, there are barriers that prevent Ontario's distribution companies from investing in energy storage in ways that make sense for the system and for ratepayers. As part of our LTEP process, we will work with our agencies to address these barriers

and create create the right environment for utilities to modernize their grids. These efforts should create new opportunities to capture the full value of energy storage.

Climate Change Action Plan (CCAP)

Preamble: With the unusually hot weather this past September, I think we can all agree that we're feeling the effects of climate change. In June 2016, the government released its first five-year Climate Change Action Plan (CCAP). Ontario's Climate Change Action Plan will provide people and businesses with tools and incentives to accelerate the use of clean technology that exists today. Through this plan, the province is continuing to reduce greenhouse gas emissions to fight climate change.

Building on Ontario's climate change legislation, the plan ensures that proceeds from the province's recently finalized cap and trade program are invested in a transparent and accountable way back into green projects that will help households and businesses reduce greenhouse gas pollution and save on their energy costs.

Q12: How is the electricity sector contributing to the province's battle against climate change?

Minister Response

Ontario has been taking strong climate-positive actions for years, such as successfully eliminating coal as a source of electricity generation and developing a long-term energy plan that focuses on a safe, clean, reliable and affordable energy future.

The Ministry of Energy is continuing to work closely with the Ministry of Environment and Climate Change (MOECC) and its agencies to develop and implement a variety of initiatives outlined in Ontario's Climate Change Action Plan (CCAP) and have taken into consideration Ontario's greenhouse gas (GHG) emissions reduction targets in the development of the 2017 Long-term Energy Plan (LTEP).

I'd ask that my Deputy Minister Serge Imbrogno provide further details on the electricity sector's contribution to Ontario's fight against climate change.

Deputy Minister Response

Ontario has taken significant action to reduce greenhouse gas (GHG) emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation.

The elimination of coal-fired generation represents a 30 megatonne (Mt) reduction in GHG emissions since 2003. In 2016, 90 per cent of the grid-connected power generated in Ontario came from clean sources of energy such as nuclear, water and other renewables. As a result of these efforts, Ontario's electricity system is in a strong position as the province transitions to a low-carbon economy.

I'd ask that Assistant Deputy Minister Steen Hume provide further details on how Ontario's electricity sector is responding to the challenge of climate change.

ADM Response

By way of background, in April 2015, Premier Wynne announced that Ontario would be putting a limit on greenhouse gas (GHG) emission through the implementation of a cap and trade program, which is a flexible, market-based program with targets (caps) that get more stringent over time. It should be noted that Ontario's caps are set at a broader economy-wide level rather than by sector.

Ontario has recent announced that it has to joined the cap and trade program that Quebec and California have implemented and which was developed under the Western Climate Initiative (WCI).

Ontario's cap and trade program will support implementation of the Climate Change Action Plan (CCAP) and help meet it's our greenhouse gas (GHG) emission reduction targets of:

- 15% below 1990 levels by 2020;

- 37% below 1990 levels by 2030; and

- 80% below 1990 levels by 2050.

On January 1, 2017, Ontario's cap and trade program took effect. So far, Ontario has successfully administered its first three quarterly cap and trade auctions in March, June, and September 2017. All current (2017) allowances that were offered at the auctions were sold (along with a portion of the offered future vintage allowances). Total proceeds for the province were approximately $1.5 billion.

By law, all proceeds from cap and trade will be invested into projects that support greenhouse gas (GHG) reductions. This will:

- Create good jobs in clean tech and construction;
- Generate opportunities for investment in next generation clean technologies; and

- Help Ontario decarbonize by shifting away from fossil fuels.

Decarbonisation of Ontario Electricity System

We respect to the decarbonisation of Ontario electricity system. In 2003, when Ontario committed to the phase-out of coal, coal-fired generation provided 25 per cent of Ontario's electricity and represented the largest single source of greenhouse gas (GHG) emissions in Ontario. A 2005 independent study estimated the financial and environmental impacts of coal-fired electricity had an annual cost of $4.4 billion.

Phasing-out coal-fired electricity generation represented the single largest climate change initiative in North America. In April 2014, Ontario burned its last piece of coal for electricity generation.

The elimination of coal-fired generation has led to a 30 Mt reduction in greenhouse gas (GHG) emissions, the equivalent of taking up to 7 million cars off the road.

Ontario was the first jurisdiction in North America with a significant reliance on coal-fired electricity to eliminate it as a source of electricity production. The phase-out has also helped in meeting Ontario's greenhouse gas (GHG) emission reduction targets.

Ontario's Supply Mix

In addition, between 2005 and 2015, the share of installed renewable energy capacity in Ontario's electricity supply mix has grown from 26% to 40%. Ontario is now Canada's leading province for both installed wind energy capacity and solar photovoltaic capacity.

Currently, approximately 7,500 MW of non-hydro renewable generation (i.e., wind, solar and bioenergy) is connected to both the transmission and distribution networks in Ontario. In 2016, non-hydro renewables produced approximately 10.25 TWh of energy. By the end of 2016, there was more than 3,100 MW of embedded generation in commercial operation within local distribution systems.

According to the Independent Electricity System Operator's (IESO) 2016 Ontario Planning Outlook, greenhouse gas (GHG) emissions are expected to rise slightly following the retirement of the Pickering generation station in 2014, but will remain well below historical levels and stay relatively flat through to 2035.

Cap and trade is designed to limit GHG emissions and is a cornerstone in the province's measures to address climate change. All emissions from electricity generation are subject to a carbon price through the cost of fuel. Natural gas distributors purchase allowances to cover emissions of consumers that are not directly covered under cap and trade, including most natural gas-fired electricity generators. Natural gas-fired

electricity generators are expected to pass on the cost of carbon through increased offers into the wholesale electricity market. As a regulated entity, costs incurred by gas distributors to comply with the cap and trade program would be passed on to natural gas consumers once approved by the Ontario Energy Board (OEB).

Non-emitting electricity generation, such as wind and solar power, is not subject to a carbon price and therefore will not impact the price of electricity.

The addition of a carbon price as part of Ontario's cap and trade program to emitting electricity generators will also reduce the amount of electricity exported from natural gas-fired generators, further reducing Ontario GHG emissions.

Climate Change Action Plan

The Ministry of Energy is working closely with Ministry of Environment and Climate Change (MOECC), the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and other key energy sector stakeholders to implement a variety of Climate Change Action Plan actions.

The Ministry of Energy is currently supporting such Climate Change Action Plan (CCAP) items, such as:

- Energy efficiency and clean energy projects for homes, businesses and industry;
- Electrification of transportation;
- Programs to support renewable micro-grids and alternative energy projects to reduce diesel in remote First Nations; and
- Municipal programs, including community energy planning.

In closing, the Ministry of Energy has taken into consideration Ontario's greenhouse gas

(GHG) emissions reduction targets in the development of its upcoming Long-term Energy Plan (LTEP) and will continue to support the implementation of Ontario's Climate Change Action Plan (CCAP)

Nuclear Refurbishment

Preamble: Last year, your Ministry announced that it would go ahead with nuclear refurbishment projects at both the Darlington and Bruce generating stations, and continued operations at the Pickering generating station to 2024.

I've heard some concern in my riding from constituents who are questioning the need to extend the life of these nuclear facilities. On the other hand, I've heard of many benefits of the nuclear sector, including environmental and health.

Q13: Could you please provide the rationale behind the Government's decision to proceed with nuclear refurbishment? How is nuclear energy helping Ontario meet its climate change targets?

Minister Response

Our priority is to ensure that Ontarians have access to a reliable, affordable and clean supply of power where and when they need it.

To date, Ontario has taken significant action to reduce emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation, including the refurbishment and restart of 2 Bruce nuclear units.

Phasing-out coal-fired electricity generation was the single largest climate change initiative in North America and the equivalent of taking up to 7 million cars off the road.

Altogether, about 90 per cent of the power generated in Ontario during 2016 came from clean sources of energy such as water, nuclear, wind, solar, and bioenergy.

Our government is committed to nuclear power and is making important investments in nuclear generation. Nuclear power is the backbone of Ontario's electricity system.

Nuclear generation is reliable, cost-effective, GHG-free and currently provides about 60% of Ontario's energy needs.

Nuclear power plants are able to operate reliably and continuously, making them ideally suited to meet around-the-clock "baseload" energy needs (i.e., the minimum demand that is always present in the system).

In 2016, all 3 of Ontario's nuclear plants – Darlington, Bruce and Pickering – received "Satisfactory" or "Fully Satisfactory" ratings from the Canadian Nuclear Safety Commission (CNSC). In fact, Darlington has received the "Fully Satisfactory" rating for the eighth year in a row, the strongest continuous performance by any Canadian nuclear power plant.

Nuclear doesn't only power Ontario's economy, it drives it too. The nuclear industry supports tens of thousands of jobs and billions of dollars in economic activity annually.

As laid out in 2013 LTEP, Ontario is moving forward with plans to refurbish 10 nuclear units at Darlington (4 units) and Bruce (6 units) between 2016 and 2033.

The upgrade of Ontario's nuclear fleet will ensure we have safe, reliable, emissions-free energy where and when we need it and contribute to job creation and economic growth.

Furthermore, Ontario's nuclear reactors are vital for the production of medical isotopes that can diagnose and treat life-threatening diseases. These isotopes can also sterilize

medical equipment such as hospital gowns, gloves, masks, implantable devices and syringes, as well as some food products.

Our decision to refurbish our nuclear fleet will help secure the supply of these critically important, life-saving medical isotopes over the long-term.

Deputy Imbrogno will now speak in more detail about the merits of nuclear refurbishment.

Deputy Minister Response

Ontario has been safely operating nuclear power plants for over 40 years starting with the launch of Canada's first full-scale nuclear reactor, Douglas Point, back in 1968.

There are currently 18 operational reactor units in Ontario, spread across 3 sites (Darlington, Pickering and Bruce), for a combined capacity of about 13,000 MW. Another 2 units at Pickering have been shut down and undergoing decommissioning.

Ontario's nuclear reactors are designed to provide electricity generation for approximately 25 – 30 years. Refurbishment and replacement of key reactor and station components is necessary to allow for continued operation for approximately 30 additional years.

Nuclear refurbishment received strong, province-wide support during the 2013 Long-Term Energy Plan (2013 LTEP) consultation process.

The merits of proceeding with nuclear refurbishment are clear.

Refurbished nuclear is expected to be the most cost-effective and emissions-free generation available to Ontario for meeting its round-the-clock power requirements.

Existing nuclear generating stations are located in supportive communities and have access to high-voltage transmission.

The refurbishments at Bruce and Darlington will support Ontario's globally recognized nuclear supply chain, with more than 180 companies and over 60,000 jobs, including a highly-skilled workforce in plant operation and support, nuclear refurbishment and manufacturing supply chain.

Ontario's commitment to refurbish its nuclear fleet will also create a strong foundation for Ontario's nuclear suppliers to export their products and services to a global nuclear industry.

I'd ask Steen Hume, Assistant Deputy Minister of the Energy Supply Policy, to discuss in more detail the specific benefits and opportunities of the Darlington and Bruce refurbishments.

ADM Response

On December 3, 2015, the government announced that Ontario has updated its contract with Bruce Power and will proceed with the refurbishment of six nuclear units at the Tiverton-based nuclear generation station. The first Bruce refurbishment is scheduled for 2020.

Then, on January 11, 2016, the government announced its decision for OPG to proceed with the refurbishment of four units at Darlington, securing 3,500 MW of power. On October 15, 2016, OPG commenced the first unit refurbishment (i.e., Unit 2 refurbishment).

Together with the 2 Bruce units that were refurbished in 2012, these refurbishments will secure over 9,800 MW of affordable, reliable and GHG-free baseload generation capacity, and support GHG-reduction targets set by Ontario's Climate Change Action Plan.

The updated Bruce agreement secures 6,300 MW of emissions-free, baseload generating capacity from the Bruce site over the long-term. The updated agreement has achieved $1.7 billion in savings for electricity customers when compared to the forecast in the 2013 LTEP. This means a reduction in forecast household electricity bills by about $66 each year over the next decade.

Bruce Power is expected to invest approximately $13 billion of its own funds and will take full risk of cost overruns on refurbishments of the six nuclear units

The Bruce site is estimated to maintain 22,000 direct and indirect jobs annually, with $4 billion in annual Ontario economic benefits through spending on operational equipment, supplies, materials and labour income.

During the Bruce refurbishments, the Bruce site will provide an additional estimated 5,000 direct and indirect jobs annually, with $2.3 billion in annual economic benefits.

For Darlington refurbishments, OPG's budget for the project is $12.8 billion, about $1.2 billion less than originally projected by OPG, and all four units are scheduled for completion by 2026.

The refurbishment of Darlington, now underway, is critical to Ontario's energy future. Darlington refurbishment will boost economic activity across Ontario, create jobs, and secure 3,500 MW of affordable, reliable and emission-free power for 30-plus years.

The Darlington refurbishment and continued operation up to 2055 will contribute $90 billion to Ontario's GDP and increase employment by an average of 14,200 jobs annually, including over 2,600 jobs onsite at Darlington. Also, a report by an independent third party highlighted that Darlington refurbishment will help reduce Ontario's GHG emissions to the equivalent of taking two million cars off the road each year.

The average cost of power from Darlington nuclear units post-refurbishment is estimated to range between $72/MWh and $81 MWh, or 7 and 8 cents per kilowatt hour in 2015 dollars.

The starting price of the Bruce output under the updated refurbishment contract is $65.73/MWh and estimated to be $77/MWh over the life of the contract in 2015 dollars.

Both Darlington and Bruce prices are within the range assumed in the 2013 LTEP for refurbished nuclear energy and are lower than the average price of electricity generation in Ontario, which in 2015 was $92/MWh.

Pickering, our first commercial nuclear plant facility, will not be refurbished once it reaches the end of its safe operating period. The Government approved a plan for OPG to complete confirmatory work and seek the necessary regulatory approvals from the Ontario Energy Board (OEB) and Canadian Nuclear Safety Commission (CNSC) to enable ongoing operation of the Pickering Generating Station up to 2024.

At that point, all Pickering units would be shut down and decommissioned. Operating Pickering up to 2024 would ensure that the province has a reliable, affordable and emission-free source of "round the clock" power during the Darlington and initial Bruce refurbishments.

As the Minister mentioned, in addition to powering our economy, our nuclear reactors have broader societal benefits, such as production of key medical isotopes.

Medical isotopes are currently produced in a number of Ontario's nuclear power and research reactors, including:

- Ontario nuclear power reactors: Bruce B and Pickering reactors; and

- Ontario Research reactors: National Research Universal (NRU) reactor at the federal Canadian Nuclear Laboratories (Chalk River, Ontario) and McMaster Nuclear Reactor at McMaster University (Hamilton, Ontario).

Cobalt-60 is one of the most prominent medical isotopes produced in Ontario's reactors. Cobalt-60 is primarily used in medical equipment sterilization and cancer treatments.

Ontario's power reactors (i.e., Bruce B and Pickering) currently supply 70 per cent of the world's Cobalt-60, which is used to sterilize medical equipment such as hospital gowns, gloves, masks, implantable devices and syringes. Cobalt-60 has also recently been used to sterilize mosquitoes to stop the spread of mosquito-borne viruses and illnesses such as Zika; and

A special form of Cobalt-60, known as High Specific Activity Cobalt (or HSA Cobalt) accounts for 10 million cancer therapy treatments each year around the world. Until now it has mostly been produced at the NRU.

Ontario's research reactors produce a number of other medical isotopes (e.g., Molybdenum-99, Lutetium-177, Iodine-125) that play a critical role in the diagnosis and treatment of critical diseases.

With NRU slated to be shut down by March 2018 and Pickering by 2024, Ontario's refurbishment program is helping to secure the supply of these critically important medical isotopes over the long-term.

- On November 7, 2016, OPG and Bruce Power signed a memorandum of understanding (MOU) to ensure a continued long-term stable supply of life-saving Cobalt-60. The companies will look for innovative ways to expand Cobalt-60 production to the Darlington and Bruce A facilities;

- On November 8, 2016, Nordion and Bruce Power announced a new long-term supply agreement for Cobalt-60 - including HSA Cobalt - over the life of the updated Bruce refurbishment contract (i.e., until 2064); and

- On August 8, 2017, Bruce Power and Areva signed an MOU to explore the *on-line production* of medical isotopes (i.e., a process that allows insertion and harvesting of isotopes during normal reactor operation as opposed to during maintenance outages). Such a capability would allow the production of shorter-lived medical isotopes (e.g., Molybdenum-99, Lutetium-177 and Iridium-192) which are currently only produced by research reactors such as NRU and McMaster Nuclear Reactor.

Q14: What are the benefits of OPG's plan for ongoing operation of the Pickering station?

Minister Response

In January 2016, the government approved a plan for OPG to complete confirmatory work and seek the necessary regulatory approvals from the Ontario Energy Board (OEB) and Canadian Nuclear Safety Commission (CNSC) to enable ongoing operation of the Pickering Generating Station up to 2024. At that point, all Pickering units would be shut down and decommissioned.

The government approval was based on promising early technical and economic assessments by OPG as well as IESO which indicated the potential for net savings for Ontario's electricity consumers as a result of operating Pickering up to 2024.

Operating Pickering up to 2024 would also ensure that the province has a reliable, affordable and emission-free source of "round the clock" power during the Darlington and initial Bruce refurbishments.

Ongoing operation of Pickering would protect 4,500 jobs across Durham region, avoid 8 million tonnes of greenhouse gas emissions, and save Ontario electricity consumers up to $600 million.

OPG will need to satisfy the CNSC of Pickering's ability to operate safely up to 2024.

CNSC will not allow Pickering to operate to 2024 unless it is satisfied that safety of the public and the environment can be assured during this period.

OPG will seek final government approval to proceed with ongoing Pickering operating up to 2024 after receiving the necessary regulatory approvals.

Deputy Imbrogno will now expand on the role of Pickering in our electricity system.

Deputy Minister Response

Pickering plays an important role in meeting our energy needs.

Pickering Nuclear Generating Station is our first commercial nuclear power plant facility. Pickering nuclear units were put into service between 1971 and 1986. Two of the eight nuclear reactors at Pickering have since been permanently shut down and are currently undergoing decommissioning.

Pickering currently provides 3,094 megawatts of system capacity through its six operating nuclear units and plays a key role in maintaining Ontario's grid reliability.

Pickering supplies approximately 14% of Ontario's electricity, enough to serve a city of approximately 1.5 million.

2013 LTEP assumed that Pickering would operate until 2020 before being shut down. This is based on the CNSC's approval that the key reactor components (i.e., reactor pressure tubes) would be able to safely operate through that period.

Since then, OPG has undertaken technical analysis and assessments on the condition of key equipment and expressed confidence in Pickering's ability to safely operate to 2024.

Steen Hume, Assistant Deputy Minister of the Energy Supply Policy, will provide more detail about the regulatory approvals required and the benefits of ongoing operation of Pickering up to 2024.

ADM Response

Like all nuclear power plants in Canada, the Pickering Nuclear Generating Station is licensed by the CNSC, which regulates the use of nuclear energy and materials to protect health, safety, security and the environment through the Federal government's *Nuclear Safety and Control Act*.

CNSC licensing of nuclear power plants is comprehensive and covers topics such as radiation protection, emergency preparedness, environmental protection and equipment fitness for service.

CNSC continuously monitors all of Ontario's nuclear power plants, including Pickering, and ensures that they operate safely at all times. In 2016, Pickering received the highest safety rating – "Fully Satisfactory" – from the CNSC for the second year in a row.

Pickering's current operating licence expires in August 2018.

On August 28, 2017, OPG submitted its Pickering operating licence renewal application along with supporting documentation to the CNSC for a 10-year period, from

September 1, 2018 to August 31, 2028. The licence renewal application encompasses three phases of operational activities over the proposed licence term:

1. Continued commercial operation until 2024;

2. Stabilization phase (post-shutdown defueling and dewatering); and

3. Early period of a Safe Storage phase.

OPG has undertaken work in three technical assessment areas to support the Pickering licence application:

- Periodic Safety Review (PSR) is being performed to evaluate the extent to which Pickering conforms to modern codes, standards and practices. Potential safety enhancements will then be assessed to identify the alternatives that can be reasonably and practicably implemented to improve safety during the four years of additional operations.

- Fuel channels (key reactor core components) are currently assumed to be the life-limiting component of the Pickering units. Technical work on the fuel channels' fitness-for-service will continue through the Fuel Channel Life Assurance Project and ongoing inspections. The work program consists of analysis and research and development work to assess fuel channel fitness-for-service for the planned operating durations and to develop methods for assuring that each Pickering unit can meet its target service life.

- Component Condition Assessments are being performed for other major components to validate their fitness-for-service to the planned operation dates.

OPG expects to spend an additional $307 million between 2016 and 2020, in order to enable ongoing Pickering operation up to 2024. As a rate-regulated asset, all costs to enable ongoing Pickering operation will be subject to review and approval by the OEB through a public and transparent process to ensure they are prudently incurred.

The estimated cost of the additional power from Pickering between 2020 and 2024 is $65 per megawatt-hour (MWh), lower than the average price of electricity generation in Ontario, which in 2015 was $92 per MWh.

The net savings of up to $600 million to Ontario electricity ratepayers from Pickering operation up to 2024 would be achieved by:

- Reducing the need to construct and operate more expensive replacement natural gas-fired generation, as well as reducing electricity imports, during the Darlington and initial Bruce refurbishments;
- Deferring transmission grid reinforcements in the Greater Toronto Area (GTA) that would be necessary once Pickering shuts down permanently;
- Deferring costs for Pickering station closure (e.g., severance costs for 4,500 employees); and
- Deferring expenditures for Pickering station decommissioning.

In addition to providing savings for ratepayers, reducing our reliance on gas-fired generation by using emission-free Pickering generation would avoid the 8 million tonnes of greenhouse gas emissions up to 2024 as mentioned by the Minister.

Support for First Nations

Preamble: I have also heard that as part of the Fair Hydro Plan, there were measures introduced to help First Nations customers out with the cost of their delivery charges.

Q15: Could you please expand on what this program does, and how it will provide relief for First Nations who live on reserve?

Response

The FNDC provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs). For those First Nations residential customers served by an LDC that are charged a bundled rate and do not have a delivery charge, we are providing a credit equal to the monthly service charge. The Ontario Energy Board estimates that the First Nations Delivery Credit will provide residential customers an average monthly benefit of $85 (or $1,020 per year).

In total, there are about 21,500 on-reserve First Nations residential customers served by LDCs who may be eligible. The distribution rate relief provided through the First Nations Delivery Credit (FNDC) will offset potential rate increases, if any, approved by the OEB for these customers.

Natural Gas Grant Program

Preamble: We know that when people heat their homes with electricity, their bills can be significantly higher in the winter. That's why access to natural gas is so important. Yet still, I sometimes hear stories from constituents across the province that have a tough time getting connected to natural gas. For some, the cost is a significant factor.

Especially some rural and remote communities have difficulty getting connected.

Q16: Could you please expand on what the government is doing to expand natural gas access to rural and remote communities?

Minister Response

In April 2017, the government launched the new Natural Gas Grant Program to facilitate the expansion of natural gas service into areas of the province that currently do not have access to natural gas.

The Natural Gas Grant Program is a $100 million initiative, part of the province's $31.5 billion *Moving Ontario Forward plan*, and is led by the Ministry of Infrastructure (MOI), with support from the Ministry of Energy and the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA).

The Natural Gas Grant Program will assist communities in gaining access to natural gas and support natural gas expansion projects with economic development potential.

I'd ask that my Deputy Minister Serge Imbrogno to expand on the Natural Gas Grant Program.

Deputy Minister Response

Ontario is expanding access to natural gas for communities that do not currently have service, including those in rural and northern Ontario and First Nations communities. Natural gas is an important heating source in Ontario and can be cheaper than alternative sources such as propane, heating oil and electricity.

Ontario's Natural Gas Grant Program will support natural gas expansion projects in municipalities, First Nations and unincorporated areas. Projects to expand natural gas pipelines as well as liquefied or compressed natural gas infrastructure are eligible.

The application window for the Grant Program closed on July 31, 2017. MOI is currently reviewing all applications for funding.

Natural gas expansion in Ontario is overseen by the Ontario Energy Board (OEB) and managed by private sector natural gas distribution companies.

I will now ask my Assistant Deputy Minister to provide additional details on the Natural Gas Grant Program.

ADM Response

Ensuring affordable sources of energy are available to more rural and northern communities is a key part of Ontario's energy plan. Natural gas access can help stimulate the economy by attracting new industry to Ontario, making commercial transportation more affordable, benefiting Ontario's agricultural producers and providing consumers with more energy choices.

MOI's inter-jurisdictional analysis of the Natural Gas Grant Program shows Ontario in a unique position in terms of the size and scope of provincially administered natural gas expansion programs:

- Alberta, allocates funding to a natural gas umbrella organization, the Federation of Alberta Gas Co-ops, which oversees the expansion of natural gas service to rural communities; and
- In Saskatchewan and Manitoba, provincial energy corporations provide loan programs to promote energy-efficient upgrades, including fuel switching to natural gas.

In April 2017, the government launched the new Natural Gas Grant Program to facilitate. The Natural Gas Grant Program has two separate application streams:

- Expansion Stream: Projects that are primarily aimed at converting residential dwellings to natural gas. A total of $70 million of funding is available for these projects.

- Economic Development Stream: Projects that will assist with connecting business to natural gas and benefit agri-businesses, rural Ontario, First Nations communities or unincorporated areas. For example, projects that will help connect farms, greenhouses, manufacturing facilities, mining operations, etc. A total of $30 million in funding is available to support these projects.

Applications to the Grant Program must be made by the natural gas distributor or supplier and have the written support of the respective municipality, First Nation or unincorporated area. Property owners cannot apply for funding under the Natural Gas Grant Program.

MOI established a review process that utilizes set criteria to determine the projects that will benefit most from access to the grant funds, and prioritizes approvals accordingly. Approvals under the Grant program will also be conditional on the project receiving all necessary approvals from the Ontario Energy Board (OEB).

Consistent with the OEB's efforts to encourage competition, multiple applications to provide service to the same project area by different distributors or suppliers are acceptable under the Natural Gas Grant Program. Where there are competing grant applications for the same community, grant funding will only be provided to the project approved by the OEB.

The application window for the Grant Program closed on July 31, 2017.

Applications and supporting documentation are being assessed by technical reviewers from Infrastructure Ontario, MOI, OMAFRA and ENERGY. The selected projects will then require Ministerial approvals.

Natural Gas Grant Program Guidelines

All projects under the Natural Gas Grant Program must be for new connections or increased volumes of natural gas. Prospective connections to new residential or commercial developments that have yet to be built are excluded.

Prospective connections, such as for the attraction of new business and investments, may be included under the Economic Development Stream with appropriate supporting evidence showing when these connections would occur and how they would benefit the area.

The Natural Gas Grant Program funding may only be used towards:

- Capital projects to build new natural gas pipelines or compressors and other related capital works; and

- Capital projects to build liquefied or compressed natural gas infrastructure, including pipelines, compressors, liquefaction facilities, re-gasification facilities, storage facilities and other related capital works.

However, it should be noted that operational and maintenance costs and the cost of purchasing gas are not eligible for funding under the Natural Gas Grant Program.

Applications will only be considered when Municipalities and First Nations participate in the following manner:

- Make a financial contribution towards project costs. The contribution should be, at minimum, equivalent to the property tax (or other levies in the case of First Nations) that would be recovered on the new infrastructure being built for a period of 10 years. How this contribution will be made (e.g. up front or over time, through municipal loans, etc.) is up to the discretion of the municipality or the First Nation in consultation with the natural gas distributor or supplier. Alternatively, municipalities or First Nations may provide evidence either separately or as part of the application to explain why making such a contribution is not feasible.

- Provide a supporting council or band council resolution. The resolution must, at minimum indicate:

    - The municipality or First Nation is supportive of the project to provide natural gas access to their jurisdiction;

    - The municipality or First Nation are willing to make a financial contribution to the natural gas expansion project should it be approved by the Ontario

Energy Board. The contribution would be, at minimum, equivalent to the property tax that would be recovered on the new natural gas infrastructure being built for a period of 10 years beginning from the time that property taxes first become due; and

- Municipalities and First Nations are expected to estimate the amount of property taxes that would be recovered over ten years for the purposes of completing the application form but are not required to specify this amount as part of the municipal or band council resolution since the actual amounts may vary.

- Finally, for applications under the Economic Development Project Stream only, municipalities and First Nations must provide supporting evidence for economic development benefits that natural gas access will bring to the community and/or region. Municipalities and First Nations must have worked with the natural gas distributor or supplier to include this information in the application form. The natural gas distributor or supplier must enter into a contractual agreement with municipalities and First Nations that were making contributions to the natural gas expansion project.

Evaluation Criteria

There are two separate project streams in order to ensure the Natural Gas Grant Program supports both improved access to natural gas as well as economic development in communities. Each has specific evaluation criteria.

In Expansion Stream, the evaluation criteria include:

- Cost-Effective Access: Projects will be assessed based on the number of new connections that are made possible relative to the amount of grant funding requested; and

- Energy Affordability: Projects will be assessed based on how much the community is currently paying in annual heating costs.

In the Economic Development Stream the evaluation criteria include:

- Economic Development: The expected economic benefits to businesses (e.g., agriculture, forestry, mining, manufacturing etc.) that support rural Ontario, First Nations or unincorporated areas. This could also include benefits to registered farming businesses and/or agri-businesses including grain elevators, feed manufacturing facilities and crop input supply businesses located anywhere in Ontario; and

- Energy Cost Savings: Expected energy cost savings to businesses with greater consideration expected for those projects that accommodate a higher density of connections to the pipeline (e.g., clusters and collaborative ventures such as business parks or corridors).

Additional criteria that both Streams are evaluated against include:

- Project Revenues and Customer Engagement: The extent to which various rate options were considered and whether the proposed rate(s) reflects feedback from the community being served;

- Greenhouse Gas Emissions: The impact the projects will have on reducing greenhouse gas emissions; and

- Partnerships and Innovation: How the projects leverage partnerships and innovative approaches to make the undertakings more economical (i.e., lower project costs or improve project revenues) or provide better outcomes.

- Geography: Additional consideration will be given to projects that are in northern areas of the province or located within First Nations Reserves.

Regulation of Natural Gas Expansion In Ontario

The Ontario Energy Board (OEB) oversees expansion of the natural gas network in the province, which typically includes three elements:

- Municipal Franchise Agreement (MFA) and Certificate for Public Convenience and Necessity: Securing the approval to serve an area of the province;

- Leave-to-Construct Approval: Securing approval to construct facilities that meet certain size and cost criteria; and

- Rate Setting: Securing approval to charge customers for regulated services.

During a nine-day oral hearing from May 5-13, 2016, the OEB heard evidence from 28 interested parties, including customer groups, environmental organizations, municipalities, First Nations, industry associations and utility companies. The OEB also received 24 written comments from interested parties by the July 2016.

In November 2016, the Ontario Energy Board (OEB) introduced new rules for natural gas expansion in the province when it issued its decision on natural gas expansion entitled *Generic Proceeding on Community Natural*

Gas Expansion

Under the new rules, natural gas distributors may implement stand-alone rates or surcharges for expansion projects to new areas to recover costs. Previously, distributors had to charge the same rates to all customers in the same rate class. This limited the ability to expand, particularly into rural and remote areas which face higher expansion costs.

The overall intent of the community expansion proceeding was to develop a regulatory framework to support the expansion of infrastructure necessary to provide natural gas to communities that would otherwise not receive natural gas service.

The OEB's decision will also encourage competition between interested parties for the provision of lower cost natural gas service to new communities. Under the new rules,

the OEB will consider proposals from competing distributors or suppliers to service the same community. In situations where there is competition to serve a new community, the OEB will first evaluate the proponents' leave-to-construct and rate-setting plans.

The Natural Gas Grant Program is complementary to these new rules introduced by the OEB. Under the Grant Program, projects to build new natural gas infrastructure must utilize stand-alone rates or surcharges to recover capital costs to lower the net grant funding required.

Recent OEB Decisions on Natural Gas Expansion

In August 2017, the Ontario Energy Board (OEB) released its decision approving an application by Union Gas Limited seeking approval of a Community Expansion Program to the following unserved areas:

- Kettle and Stoney Point First Nation and Lambton Shores; and
- Milverton, Rostock and Wartburg.

This decision demonstrated the significance of the new regulatory framework announced in the Generic Proceeding decision. Union will use a volumetric-based "System Expansion Surcharge" (SES) applied only to those customers residing in the new expansion area. The expansions do not rely upon additional funding from the Natural Gas Grant Program.

The System Expansion Surcharge (SES) will be community-specific, for a defined period of time not to exceed 40 years towards recovery of the cost of the projects. It will be reviewed by the Ontario Energy Board (OEB) after 10 years from the start of its implementation to ensure that its forecasted costs remain on track to be appropriately recovered within the remaining timelines.

The surcharge rate for all communities will be 23 cents per cubic metre, and the approved SES term will be applied to customers attaching to any future extensions of the pipeline system. The SES will appear as an extra line item on each expansion area customer's monthly bill along with the current gas bill line items.

OEB's August 2017, decision also approved expansion to the Delaware Nation of Moraviantown First Nation conditional on receiving funding from the Natural Gas Grant Program. OEB deferred its decision on expansion to Prince Township pending negotiations between Union and Batchewana First Nation of Ojibways.

Ontario's Natural Gas Grant Program is supporting natural gas expansion projects in municipalities, First Nations and unincorporated areas.

Ontario is expanding access to natural gas for communities that do not currently have service, including those in rural and northern Ontario and First Nations communities. Natural gas is an important heating source in Ontario and can be cheaper than alternative sources such as propane, heating oil and electricity.

SCOPA_QA Overview_20180117_v2.pdf

QUESTIONS & ANSWERS OVERVIEW

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pension asset accounting
- Pre-Election Report
- Province's debt burden

Long-Form Member Questions

1. Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?

3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

Top Questions

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

DRAFT

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs, which are organized on the basis of Auditor General recommendation number.*

DRAFT

FW_ For Approvals - Six-Month Plan.pdf

From: Visheau, Vanessa (ENERGY)
To: Ridd, Carl (ENERGY); Yordi, Samer (ENERGY)
Subject: FW: For Approvals - Six-Month Plan
Date: November 9, 2017 10:51:07 AM
Attachments: 2017 Six-Month Plan - 20171031-SNAP consolidated.pptx

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Hi Carl/Sam,

I've been asked to double-check if the number "190,000 households that are currently receiving OESP credits" on slide 8 for OESP is the most up to date number for enrollment?

Thanks so much,
Vanessa

From: Ridd, Carl (ENERGY)
Sent: November 2, 2017 4:26 PM
To: Edwards, Matthew (ENERGY); Visheau, Vanessa (ENERGY); Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY); Berg, Denna (ENERGY); Kitchen, Matthew (ENERGY)
Subject: RE: For Approvals - Six-Month Plan

SNAP ADM approved edits tracked into slides 4, 7, 8, 9, 11, 13, 14.

Thanks,

Carl

From: Ridd, Carl (ENERGY)
Sent: November 2, 2017 11:55 AM
To: Edwards, Matthew (ENERGY); Visheau, Vanessa (ENERGY); Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY); Berg, Denna (ENERGY); Kitchen, Matthew (ENERGY)
Subject: RE: For Approvals - Six-Month Plan

Carolyn's schedule is back to back from now until 4:30pm, but I'll try to sneak in an approval somewhere in between. Otherwise we will be EOD as well.

Carl

From: Edwards, Matthew (ENERGY)
Sent: November 2, 2017 11:50 AM
To: Visheau, Vanessa (ENERGY); Cox, Hilary (ENERGY); Ridd, Carl (ENERGY)
Cc: Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY); Berg, Denna (ENERGY); Kitchen, Matthew (ENERGY)
Subject: RE: For Approvals - Six-Month Plan

Hi Vanessa,

We will try for EOD. Sorry for the delay.

Thanks,

Matt

From: Visheau, Vanessa (ENERGY)
Sent: November 2, 2017 11:36 AM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Cc: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>; Barbaro, Rachel (ENERGY) <Rachel.Barbaro@ontario.ca>; Berg, Denna (ENERGY) <Denna.Berg@ontario.ca>
Subject: RE: For Approvals - Six-Month Plan

Thanks Hilary – Carl and Matthew do you think we will able to get this back soon? My apologies, I know it is busy, but unfortunately we are working with a tight deadline.

Thanks again,
Vanessa

From: Cox, Hilary (ENERGY)
Sent: November 1, 2017 2:21 PM
To: Visheau, Vanessa (ENERGY); Ridd, Carl (ENERGY); Edwards, Matthew (ENERGY)
Cc: Lyon, Sam (ENERGY); Barbaro, Rachel (ENERGY); Berg, Denna (ENERGY)
Subject: RE: For Approvals - Six-Month Plan

Hi Vanessa –
A couple of verb tense edits on slide 6 since OFHP is in force.

HC

From: Visheau, Vanessa (ENERGY)
Sent: October 31, 2017 10:35 AM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Cc: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>; Barbaro, Rachel (ENERGY) <Rachel.Barbaro@ontario.ca>; Berg, Denna (ENERGY) <Denna.Berg@ontario.ca>
Subject: For Approvals - Six-Month Plan

Good morning,

Please see attached for the ministry's six-month plan that requires approvals. It focusses on our key initiatives, issues and additional comms. If you could please return it by **tomorrow Wednesday, November 1, 2017 end of day** that would be much appreciated. I know it's a tight turn around but we have to have it to CO asap. Please let me know if you have any questions!

Thanks so much,
Vanessa

2017 Six-Month Plan - 20171031-SNAP consolida.pdf

Six-Month Plan
Ministry of Energy

Last updated: October 2017

ACHIEVING GOVERNMENT PRIORITIES

- **Government Priorities:**
  - Launch Ontario's 2017 Long-Term Energy Plan (LTEP), *Delivering Fairness and Choice*
  - Implement Ontario's Fair Hydro Plan to provide electricity rate mitigation for Ontario households and businesses
  - Promote energy conservation and a one-window, customer-focused approach to conservation and low-carbon technology programs
  - Engage with Indigenous partners in energy planning and support economic development and reconciliation
  - Support the Green Investment Fund/Green Ontario Fund to help homeowners improve the energy efficiency

- **Delivery:** On October 26, 2017, the Ministry of Energy launched the 2017 Long-Term Energy Plan, *Delivering Fairness and Choice*, which builds on the years of investment that Ontarians made to renew and clean up the province's electricity system. The plan will continue to support Ontario's measures to reduce electricity costs, and to build a clean and reliable energy system for Ontarians and their families.

Key Initiatives

1. **2017 Long-Term Energy Plan**
2. **Ontario's Fair Hydro Plan**
3. **Ontario Electricity Support Program**
4. **Electricity Bill Redesign Action Plan**

KEY INITIATIVE 1: 2017 Long-Term Energy Plan (LTEP) Rollout

- **Description:** 2017 LTEP, *Delivering Fairness and Choice,* provides a road map of Ontario's energy sector for the next 20 years. The LTEP contains a number of initiatives that will require communications consideration in the coming six months.
- **Measuring success:**
  - Enhancing energy consumer protection, including through increased Ontario Energy Board regulatory authority over unit sub-meter providers.
  - Enhancing net metering framework, to provide new ways for Ontarians to participate in renewable energy and reduce electricity bills.
  - Indigenous partners: exploring expansion of electricity affordability initiatives and access to natural gas; ~~C~~connecting off-grid First Nation communities; improving support programs such as ~~availability of~~ conservation, education and capacity building, energy partnerships and community energy planning ~~programs in those communities~~, considering new financing and funding supports.
  - Renewing the Smart Grid Fund to support innovative companies.
  - Aligning conservation efforts with climate change goals.
- **Milestones:**
  - October 2017: Release of the 2017 LTEP
  - Upcoming to include:
    - London Hydro and Oshawa PUC Regulated Price Plan pilots;
    - Smart Grid Fund projects;
    - Supporting Indigenous capacity and leadership;
    - Net metering framework expansion;
    - Implementation of Green Button province-wide
    - Launch of efforts to re-design electricity bills

KEY INITIATIVE 1: 2017 Long-Term Energy Plan (LTEP) Rollout (continued)

- **LTEP Key messages:**
  - The 2017 LTEP outlines Ontario's plans to improve fairness, flexibility and choice.
  - The 2017 LTEP builds on our leading role in the global fight against climate change and supports the goals of Ontario's Climate Change Action Plan.
  - Ontario's success in building a clean and reliable electricity system means we can maintain our focus on helping Ontarians and their families.

- **Communications tactics:** Tactics will depend on the particular initiative being launched/promoted. In most cases, the Ministry is proposing that initiatives will be rolled-out through regional and local media events, with echo of overall LTEP message. The Ministry will also work with any announcement partners/stakeholders on tactics.

- **Digital / Marketing tactics:** Depending on scale of announcement, products could be distributed via Newsroom; potential updates to LTEP website; earned and social media promotion of announcements; Ministry will also work with any announcement partners/stakeholders (e.g., smart grid fund recipients) to leverage their digital/marketing potential.

KEY INITIATIVE 2: Ontario's Fair Hydro Plan

- **Description:** Introduced in March 2017, Ontario's Fair Hydro Plan will result in lower electricity bills for residential consumers and as many as half a million small businesses and farms. Lower-income Ontarians and those living in eligible rural communities will receive even greater reductions, as much as 40 to 50 per cent. As part of this plan, rate increases for four years would be held to the rate of inflation.
- **Measuring success:**
  - A 25% reduction in electricity bills for a typical residential consumer
  - Eligible consumers will have access to an enhanced low-income conservation program
  - Eligible on-reserve First Nations residential customers receive a credit equal to 100 per cent of their delivery charge
  - More households eligible for assistance under the Ontario Electricity Support Program and increasing on-bill credits by 50%
- **Milestones:**
  - Ongoing speeches and announcements at industry and related stakeholder events.
- **Key messages:**
  - Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent on average for residential customers, and will hold increases to the rate of inflation for four years.
  - Ontario's Fair Hydro Plan also includes initiatives to reduce costs for businesses.
- **Communications tactics:** Promotion of the key messages of the OFHP at events, Minister's/PA's speeches, etc. As part of the 2017 LTEP, continue to promote the OFHP at LTEP echo, regional events, LTEP initiative launches.
- **Digital / Marketing tactics:** The Ministry is not proposing any further paid marketing of OFHP.

KEY INITIATIVE 2: Ontario's Fair Hydro Plan – Issues and Mitigation

- Communicating the benefits of Ontario's Fair Hydro Plan remains a focal point for the Ministry and will continue to be a prominent theme for upcoming speeches and announcements with stakeholders.

- However, a number of events or milestones have the potential of interrupting the good news stories relating to Ontario's Fair Hydro Plan, including OPG's engagement with the markets to sell OFHP debt, and also any potential follow-ups or supplemental reports from the Auditor General or the Financial Accountability Officer.

- This could continue the public and media focus on aspects of the OFHP such as the debt financing mechanism, interest costs, etc.
- First Nations will continue to lobby for expansion of the First Nations Delivery Credit (FNDC) to First Nation owned infrastructure on-reserve, as well as off-reserve households. Métis are also seeking an FNDC-type bill credit.

- **Communications tactic:** Develop an Issues and Mitigation Strategy for scenarios and outcome from preliminary discussions with rating agencies.

KEY INITIATIVE 3: Ontario Electricity Support Program (OESP)

- **Description:** OESP was launched on January 1, 2016 ~~introduced in Oct. 2015~~ to help low income households with their electricity bills. Program implementation to-date has been the responsibility of the Ontario Energy Board. ~~Since~~ The OESP will move ~~OFHP moved the program cost~~ from the rate base to the tax base under the OFHP, the Ministry is discussing with OEB the transition of program administration to government ~~will be responsible for implementation beginning Q1 2018~~.
- OESP is largely administered through contracts with service providers, and through MOUs with agency delivery partners. Communications and marketing is undertaken by OEB. These contracts, MOUs, and communications responsibilities would transfer to the Ministry. ~~This means that the OESP website, application intake process (digital and paper), income verification, toll free customer call centre, stakeholder communications including ministries (MCSS/MGCS//MOF), MPPs, LDCs, social assistance agencies and Indigenous communities, paid, earned and owned media advertising planning and procurement will transition to the Ministry of Energy in 2018.~~
- **Measuring success:** About 190,000 households are currently receiving OESP credits, representing about 30% of those considered eligible. ~~program currently benefits approx. 250,000 low income households. The Ministry's goal is to maintain a widespread uptake in the program.~~
- **Milestones:** December 11 LRC to finalize legislative and regulatory amendments for transition. Implementation of transition expected in Q4 2017-2018. ~~to take over rollout of the program on [X date] (TBC)~~
- **Key messages:**
  - There's support for low income households to help pay electricity bills
  - Electricity bill savings of $35-$75 monthly. Eligibility depends on income and how many people in household.
  - Apply at ontarioelectricitysupport.ca

KEY INITIATIVE 4: Electricity Bill Redesign Action Plan

- **Description:** The ministry is working with Local Distribution Companies and ministry agencies to re-write the regulations that stipulate what must appear on residential customers' hydro bills. Goal is to make the bills easier to understand for consumers.
- **Measuring success:**
- Track public perception through media scans following announcement
- Newly redesigned bills will have until January 2019 to be in-market. This is a long-term initiative. Once in-market, LDCs will be able to measure and monitor customer feedback.
- **Milestones:** Quantitative research study November-December 2017, ~~Analysis of research study findings December 2017~~, Regulations for Fair Hydro Plan savings messaging December 2017 (implementation Q1 2018), ~~Presentation of~~ quantitative study findings and full re-design regulations January/February 2018~~9~~, All newly redesigned bills to be in-market January 2019
- **Key messages:**

1) Electricity bills are changing to better meet the needs and expectations of customers.
2) Electricity bills will be designed with the customer in mind; clear, informative and easy to read with the essential information customers need to manage their electricity usage.

- **Communications tactics:**
- Minister's event
- Bill inserts for LDCs
- Matte article, Op-Ed, media interviews
- **Digital / Marketing tactics:**
- Share-ables for LDCs and ministry to use on social media;
- Twitter, FB posts

ADDITIONAL COMMUNICATIONS & MARKETING OPPORTUNITIES

Timing	Initiative Name	Description
October 2017 – August 2018	Know Your Power	This joint initiative with the Ontario Chamber of Commerce is designed to build awareness of provincial energy saving rebates and energy efficiency programs available to the business community. This is expected to increase program enrollment while helping Ontario businesses save money and conserve energy.
January 21-23, 2018	Royal Ontario Municipal Association Conference	The ministry will have the opportunity to meet with municipalities upon request and discuss their energy related concerns.
February 25-28, 2018	Ontario Good Roads Association Conference	The ministry will have the opportunity to meet with municipalities upon request and discuss their energy related concerns.
February 2018 – End of month	Demolition of Nanticoke Coal Stacks	Ontario Power Generation will demolish the two large Nanticoke coal stacks at the end February. The coal yard is also the future location of Nanticoke Solar.

ADDITIONAL COMMUNICATIONS & MARKETING OPPORTUNITIES

Timing	Initiative Name	Description
Ongoing (Launched in October 2016)	Green Investment Fund	In partnership with Enbridge Gas Distribution and Union Gas, the program will help about 37,000 homeowners conduct audits to identify energy-saving opportunities and then complete retrofits, such as replacing furnaces and water heaters, and upgrading insulation. This will help reduce their energy bills and cut greenhouse gas emissions.
Ongoing	Indigenous annual general meetings and conferences	The Chiefs of Ontario and the Metis Nation of Ontario hold annual assemblies, as do the four First Nation political territorial organizations. There are numerous Indigenous energy, economic development, housing, and other conferences that provide opportunities to increase awareness of ministry and agency programs and activities.

ISSUES

Timing	Issue	Mitigation
Oct - Nov 2017	Nuclear safety (incl. Provincial Nuclear Emergency Management Plan) (Major nuclear preparedness exercise takes place in Nov)	Emphasize history of nuclear safety and reliability in reactive response to media queries, and government commitment to ensuring continued safety. OPG will be proactive in neighbouring communities regarding exercise.
Ongoing	Ontario's Fair Hydro Plan – efficacy, advertising costs and financing of price reduction.	Emphasize benefits of the price reductions and program expansions in Minister's remarks. Reactive response to media queries.
Ongoing	Hydro One activities and recovery of costs	Refer to October OEB decision disallowing recovery of higher salary costs from ratepayers, and requiring Hydro One to share tax savings with ratepayers. Reactive response to media/stakeholder queries.
Ongoing	OPG/Energy Agency Salaries	Note that electricity sector positions are highly skilled and salaries reflect this. Emphasize that all agencies are in compliance with Bill 55 and have undertaken their own efficiency measures. Reactive response to media inquiries.

ISSUES

Timing	Issue	Mitigation
Ongoing	Nuclear refurbishment	Nuclear refurbishment is a priority topic that will be closely monitored by the ministry throughout its duration. The ministry will mark milestones in Minister's remarks or in partnership with OPG. Reactive response to media queries.
Ongoing	Transmission Expansion in the North	Highlight milestones achieved. Ensure ongoing information/communication with communities, FN and other stakeholders.
Ongoing	Gasoline Prices in the North	Defer/refer to OEB review of gas prices ordered by Ministry.
Ongoing	Barriers to accessing Indigenous programming	Per LTEP directive, the IESO will engage with Indigenous populations to get input into program improvements. Recommendations will be included in their Jan. 31, 2018 report.

TIMELINE

October 2017 – August 2018: **Know Your Power Initiative**

October 2017: **Net Metering** updates listed in 2017 LTEP

January 2018: **Electricity Bill Redesign Plan begins**

January 2018: **ROMA Conference**

February 2018: **Nanticoke Demolition**

Ongoing: **Green Investment Fund**

Ongoing: **Hydro One activities and recovery of costs**

Ongoing: **Nuclear Refurbishment**

Ongoing: **Gasoline Prices in the North**

October 26, 2017: **Release of the 2017 LTEP**

October 2017: **Green Button** listed as key initiative in 2017 LTEP

October – November 2017: **Nuclear Safety**

January 2018: **OESP** will transition to the Ministry of Energy

February 2018: **OGRA Conference**

July 1, 2018: **EWRB** recording of large Ontario buildings begin

Ongoing: **Ontario's Fair Hydro Plan**

Ongoing: **OPG/ Energy Agency Salaries**

Ongoing: **Transmission Expansion in the North**

Ongoing: Indigenous annual general meetings and conferences

SPECIAL DATES and NEWS YOU CAN USE

Timing	Initiative	Description
Late October	#OFFtober	Social media campaign in partnership with EcoSchools featuring Phantom Power video
October to early December	Fall seasonal content	Series of posts around energy use in fall i.e. weather stripping, furnace filters etc.
November 1, 2017	Regulated Price Plan rate changes in effect	Social media posts around Time-of-use electricity rates
November 5, 2017	Daylight savings time ends	Tweets and Facebook reminders to change timers on lights and water heaters
Mid to late December	Winter seasonal content	Series of posts around energy use in winter commencing the first day of winter

SPECIAL DATES and NEWS YOU CAN USE

Timing	Initiative	Description
Mid to late December	Holiday campaign	Social media campaign related to gift purchases, EnergyStar appliances, and LED lighting decorations.
December 27-29	New Years Resolutions	A New Years resolution-themed social campaign highlighting energy tips/savings.
Every Thursday	Throwback Thursdays	Social media posts featuring vintage energy-related photos in Ontario.
January 23 -25	DistribuTECH 2018 - Texas	Smart Grid Fund posts related to Ministry - funded companies exhibiting at conference
February 2018	Super Bowl, Oscars & Grammy Awards	Series of energy-related posts themed around Super Bowl, Oscars and Grammy Awards

SPECIAL DATES and NEWS YOU CAN USE

Timing	Initiative	Description
Early to mid March	Spring seasonal content	Series of posts around energy use in spring
March Break	EcoSchools Campaign	Partnering with EcoSchools on a March Break energy savings campaign
March 24	Earth Day	Themed social posts for Earth Day

Appendix

More details on:

- Net metering
- Green Button
- Energy and Water Reporting and Benchmarking

INITIATIVE: Net Metering

- **Description:** Net metering is a billing arrangement between a Local Distribution Company (LDC) and a customer. Under a net metering arrangement, an electricity customer, such as a property owner or business, can generate electricity from a renewable source for their own use while still drawing electricity from the local distribution grid when needed.
- **Measuring success:** Communicate the passing of legislative changes to the Ontario Energy Board Act (OEBA) that will enable: third parties to own and operate net metering projects and virtual net metering demonstration projects. To inform the public that regulatory changes will be proposed outlining the regulatory requirements of third party operators and potential net metering demonstration projects, it will be posted to the Environmental Registry and Ontario Regulatory Registry for public consultation.
- **Milestones:**
- In February 2017, Ontario filed an amended Net Metering Regulation (O.Reg. 541/05), which came into force July 1, 2017 ("Part 1 updates"). These updates include:
  - Extending the carryover period for bill credits from 11 months to 12 months, removing the 500 kW project capacity size limit, and enabling the pairing of energy storage with renewable energy generation.
- Part 2 updates have been communicated through the 2017 Long Term Energy Plan (LTEP) and will include legislative and regulatory actions to:
  - Expand eligibility for third-party ownership arrangements, and support virtual net metering demonstration projects to better understand impacts and inform potential future updates to the net metering framework.

INITIATIVE: Net Metering - Part 2

- **Key messages:**
- Ontario is further enhancing the net metering framework to expand opportunities for consumers to participate in net metering, and encourage new sources of clean, cost-effective energy supply that can offset peak demand and help reduce the need to invest in large generation projects in the future
- The third-party ownership model will allow homeowners and businesses to have greater access to renewable generation, which can be used to offset their electricity use and participate in a net metering arrangement, potentially without the up-front cost of buying or financing the equipment
- These measures would broaden opportunities for innovative customer-utility relationships and expand customer choice by: improving affordability of renewable generation for customers; enabling new ownership structures; and facilitating innovation in net-zero building and community developments
- **Communications tactics:**
- A low-profile, reactive, targeted approach is recommended. No proactive communications tactics planned
- The 2017 LTEP reaffirms Ontario's commitment to expand the net metering regulation and highlight the benefits of third party ownership and virtual net metering demonstration projects
- Regulatory changes will follow and provide greater detail on the treatment of third party operators and virtual net metering demonstration projects.
- ENERGY will then utilize additional communication opportunities in order to reiterate the messages from the LTEP.
- **Digital / Marketing tactics:** Social media posts on Twitter and Facebook about net metering.

INITIATIVE: Green Button

- **Description:** Green Button is a data standard that can empower households and businesses with access to their utility data (i.e. Download My Data) and allow them to authorize the automatic, secure transfer of their own data from their utility to apps of their choice (i.e. Connect My Data). The 2013 and 2017 LTEPs promoted Green Button as a way to give consumers access to their electricity consumption data and connect with apps to help analyze and manage their electricity consumption. Ontario is committed to expanding Green Button province-wide and intends to amend legislation that would, if passed, allow Ontario to require electricity and natural gas utilities to implement Green Button.

- **Measuring success:**
- Communicate progress on the Green Button initiative, a key initiative in Ontario's 2013 and 2017 Long-Term Energy Plans (LTEP) and a commitment in the Climate Change Action Plan (CCAP)
- The Green Button initiative allows utility customers to access and share their energy and water usage information in a standard, secure way
- Sharing their data with innovative mobile and web apps can help them better understand and manage their energy and water usage

- **Milestones:**
- Pending enactment of proposed legislative amendments, ENERGY would aim to seek LRC approval of proposed Green Button regulation in early 2018

INITIATIVE: Green Button - Part 2

- **Key messages:**
- Green Button is a data standard that can empower households and businesses with access to their utility data and allow them to authorize the automatic, secure transfer of their own data from their utility to apps of their choice.
- Green Button can leverage Ontario's investment in smart meters and unleash the full potential of energy data. Access to energy data — and the ability to share that data with innovative data-driven apps, services and solutions — can help Ontario households and businesses better understand their energy and water use, and identify conservation and energy efficiency opportunities.
- Ontario is committed to expanding Green Button province-wide and intends to amend legislation that would, if passed, allow Ontario to require electricity and natural gas utilities to implement Green Button.
- **Communications tactics:**
- A low-profile, reactive approach is recommended for the public, given the early stage of implementation (more proactive communications to be planned for the regulation in early 2018). QAs to be prepared to respond to any questions from stakeholders, media and public
- The 2017 LTEP reaffirms Ontario's commitment to expand Green Button province-wide and highlight the benefits of enabling greater access to data and sharing of data.
- Communications regarding the LTEP or CCAP could highlight the status of the proposed legislation to demonstrate progress on implementation
- **Digital / Marketing tactics:** N/A

INITIATIVE: Energy and Water Reporting and Benchmarking (EWRB)

- **Description:** Owners of large buildings in Ontario will be required to report their annual energy and water consumption, and greenhouse gas emission data to the Ministry of Energy annually, starting July, 1, 2018, through ENERGY STAR Portfolio Manager™ (as per O. Reg. 20/17: Reporting of Energy Consumption and Water Use).

- **Measuring success:** On February 6, 2017, the regulation was filed to help building owners improve their building's energy and water efficiency, and to support Ontario's Climate Change Action Plan and Ontario's commitment to put conservation first
- Large Building Energy and Water Reporting will help building owners:
  - Better manage energy and water use and costs
  - Identify best practices and energy and water-saving opportunities
  - Set and achieve measurable goals
  - Evaluate results by comparing to similar facilities across the province
  - Measure improvement over time
  - Value energy efficient and water efficient buildings

- **Milestones: Key dates**
- **October 2017** Pilot program kickoff: Email campaign and survey to buildings selected to participate in pilot. Service Ontario EWRB call centre opens
- **November 2017** Communications snapshot for January 1, 2018, reporting launch date
- **December 2017** Update website messaging to flag organizations can begin reporting on January 1, 2018. Meeting with LDCs and stakeholders: communications materials pre- and post-meetings

INITIATIVE: Energy and Water Reporting and Benchmarking (EWRB) Part 2

- **January to June 2018** Social media campaign to promote program launch. Webinars for participants. Promote via social media and monthly bulletins to help organizations understand reporting process (for buildings greater than 250,000 square feet). Meeting with LDCs and stakeholders: communications materials pre- and post-meetings
- **Key messages:**
- Owners of large buildings play an important role in helping Ontario meet its conservation and greenhouse gas (GHG) reduction targets. Office buildings, condominiums and retail stores accounted for 19 per cent of Ontario's total GHG emissions in 2013
- To help owners improve their building's energy efficiency, the Ministry of Energy introduced the Energy and Water Reporting and Benchmarking (EWRB) initiative for large private sector buildings
- Owners of large buildings are required to report their energy and water consumption, and greenhouse gas emission data to the Ministry of Energy by July 1 of every year: The reporting requirement will be phased in over three years, beginning July 1, 2018, with buildings that are greater than or equal to 250,000 square ft.
- **Communications tactics:**
- Content posted to Ontario.ca (how to report, deadlines, guide to reporting), email communication, Stakeholder Advisory Committee meetings, Webinars hosted through Natural Resources Canada: will start in 2018, Training material: developing now (no date set for when materials will be available to the public)
- **Digital / Marketing tactics:** Social media posts (January 2018)

FW_ For ESP Review_ SCOPA Materials Drafts .pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Cayley, Daniel (ENERGY)
Subject:	FW: For ESP Review: SCOPA Materials Drafts
Date:	January 31, 2018 6:27:00 PM
Attachments:	Response Table_Example_20180122.docx

Daniel, I assume you've worked on this – would you know if there is a need to *add* to the response table, for us re: Affordability Fund?

Thanks,
Emam

From: Edwards, Matthew (ENERGY)
Sent: January-25-18 12:03 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Syed, Usman (ENERGY); Krsikapa, Senka (ENERGY)
Subject: FW: For ESP Review: SCOPA Materials Drafts

Can you please review the Affordability Fund trust materials in these documents? The Ministry will be appearing at Public Accounts at the end of February to discuss OFHP.

Due to ADMO January 31st.

Thanks,

Matt

From: Hendy, Adam (ENERGY)
Sent: January 25, 2018 12:00 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Kitchen, Matthew (ENERGY) <Matthew.Kitchen@ontario.ca>
Cc: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; @ENERGY-COMM-Issues_and_MediaRelations <ENERGY-COMM-Issues_and_MediaRelations@msgov.gov.on.ca>
Subject: RE: For ESP Review: SCOPA Materials Drafts

Thanks Hilary,

Looping in Matt here. Matt if you have any questions about the below please don't hesitate to reach out.

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: January-25-18 11:55 AM
To: Hendy, Adam (ENERGY)
Subject: RE: For ESP Review: SCOPA Materials Drafts

Hi Adam –
Please also loop in CRED since the DM has asked Kaili to attend Public Accounts as well with regard to AG recommendation #9.

HC

From: Hendy, Adam (ENERGY)
Sent: January 24, 2018 3:09 PM
To: Thiru, Dhil (ENERGY); Cox, Hilary (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Whytock, John (ENERGY); Lyon, Sam (ENERGY); Perkins, Michael (ENERGY); Nucciarone, Michael (ENERGY)
Subject: For ESP Review: SCOPA Materials Drafts

Hi Dhil and Hilary,

Attached for your review are the following items that are due to TBS for SCOPA:

- **QA and KM Template –** A lot of this language is in your hands already with the OPG Tech Briefing QA that is due back tomorrow, hoping you can update/add with this messaging where indicated.
- **Response Table**
- **Friendly Q's –** We inserted everything we had for Qs 1 and 3, we will need ESP's help to get to the 20 minute mark for these. I believe Q2 is where we need it to be however.

We will leave it up to ESPD to decide if there is enough time to run the friendlies by OPG and IESO. We are comfortable with running them through next week, as long as we are able to provide ministry edits to TBS for their Monday deadline.

Please do not hesitate to call if you have any questions or concerns.

Thanks,
Adam

Response Table_Example_20180122.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither

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	follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External	Confirm that the	The government's use of external expertise for

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Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	province seeks external expertise when appropriate as a normal course of business.	accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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FW_ For ESP Review_ SCOPA Response table(1).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: For ESP Review: SCOPA Response table
Date:	January 25, 2018 4:57:00 PM
Attachments:	Response Table_Example_20180122.docx

Ava – see below request for tomorrow afternoon.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 25, 2018 4:56 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Guys –
Steen asks that you beef up the language around OFHP policy intent (per Estimates and AG QAs) for attached table. There is something vaguely there, but it needs to be clearer, more like our messaging and generally enhanced. Tomorrow EOD seem possible?

HC

Response Table_Example_20180122_1.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither

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	follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External	Confirm that the	The government's use of external expertise for

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Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	province seeks external expertise when appropriate as a normal course of business.	accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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FW_ For ESP Review_ SCOPA Response table(2).pdf

From:	Lightbody, Ava (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject:	FW: For ESP Review: SCOPA Response table
Date:	January 26, 2018 2:13:56 PM
Attachments:	Response Table_Example_20180122-EPE-V2.docx

Hi Hilary,

Our additions to this SCOPA response table. Note that some of this content would be IESO or TBS domain, i.e. in the "IESO accounting" and "Legislated Accounting" sections.

Feel free to give me a ring if any concerns.

Ava

From: Cox, Hilary (ENERGY)
Sent: January 25, 2018 4:56 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Guys –
Steen asks that you beef up the language around OFHP policy intent (per Estimates and AG QAs) for attached table. There is something vaguely there, but it needs to be clearer, more like our messaging and generally enhanced. Tomorrow EOD seem possible?

HC

Response Table_Example_20180122-EPE-V2.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements. The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making~~, and that the accounting structure is still being finalized.~~. Refuse to	As part of Ontario's Fair Hydro Plan, bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments

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	speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with ~~Public Sector Accounting Standards (PSAS).~~PSAS. ~~The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating~~

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		costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, the IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting

Commented [AL1]: Concept covered above

DRAFT

	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	rules or legislate the accounting. This is a fundamental disagreement the government has with the Auditor General's report. It is important to distinguish legislating the accounting from legislating the right ~~of the government~~ to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The OFHP operates under a financial and accounting framework that is appropriate for its intended purpose. It is in accordance with PSAS and ensures the goals underlying the program are achieved in a cost-effective manner. In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions. The province~~, as always,~~ will continue to prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

DRAFT

FW_ For ESP Review_ SCOPA Response table.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table
Date: January 25, 2018 4:56:19 PM
Attachments: Response Table_Example_20180122.docx

Hi Guys –

Steen asks that you beef up the language around OFHP policy intent (per Estimates and AG QAs) for attached table. There is something vaguely there, but it needs to be clearer, more like our messaging and generally enhanced. Tomorrow EOD seem possible?

HC

Response Table_Example_20180122_2.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither

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	follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External	Confirm that the	The government's use of external expertise for

DRAFT

Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	province seeks external expertise when appropriate as a normal course of business.	accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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FW_ Government’s Reply to AG Report _ Fair Hydro(1).pdf

From: Lyon, Sam (ENERGY)
To: Spence, Marcia (ENERGY); Barbaro, Rachel (ENERGY)
Subject: FW: Government"s Reply to AG Report | Fair Hydro
Date: October 16, 2017 11:25:00 AM

FYI

From: Schlaepfer, Martin (ENERGY)
Sent: October-16-17 11:15 AM
To: Evans, Karen (ENERGY); Lyon, Sam (ENERGY)
Subject: FW: Government's Reply to AG Report | Fair Hydro

From: Teliszewsky, Andrew (ENERGY)
Sent: October 16, 2017 11:13 AM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Subject: FW: Government's Reply to AG Report | Fair Hydro

From: Teliszewsky, Andrew (ENERGY)
Sent: October-16-17 11:13 AM
To: Imbrogno, Serge (ENERGY); Angus, Helen (TBS); Thompson, Scott (MOF); Orsini, Steve (CAB)
Subject: FW: Government's Reply to AG Report | Fair Hydro

FYI Confirmed with PO this flow.

From: Teliszewsky, Andrew (ENERGY)
Sent: October-16-17 11:12 AM
To: Ghiassi, Ali (MOF); Pichelli, Jason (TBS); Pichelli, Jason (TBS); Bevan, Andrew (OPO); Jancik, Mike (OPO); MacKenzie, Rebecca (OPO); Beaudry, Jennifer (OPO); Codd-Downey, Beckie (GHLO)
Cc: Berry, James (ENERGY); Giroux Namian, Orli (MOF); Gallant, Gabrielle (TBS); Nekolaichuk, Colin (ENERGY); Den Heijer, Kevin (ENERGY)
Subject: Government's Reply to AG Report | Fair Hydro

Good Morning:

Please note the following sequence of events for Tuesday 17 October, 2017

9am – Standing Committee on Estimates | Ministry of Energy
10.30am – Auditor Tabling of Report | Ontario Fair Hydro Plan
10.30am – Question Period
12-noon – Auditor General in Media Studio
1pm – Government Response to Auditor General Report Begins
1pm – Technical Briefing (Officials) | Location : MacDonald Block (Room TBC)
1.30pm – Ministers' Media Availability | Location : MacDonald Block (Room TBC)

3.45pm – Standing Committee on Estimates | Ministry of Energy

We will discuss more at this afternoon's pre-brief. Details to be sent out shortly.

Many thanks, in advance.

Atel/

Andrew Teliszewsky

Chief of Staff | Office of Hon. Glenn Thibeault
Ministry of Energy
andrew.teliszewsky@ontario.ca
416-327-3550 (o)
416-436-6370 (m)

FW_ Government’s Reply to AG Report _ Fair Hydro.pdf

From: Schlaepfer, Martin (ENERGY)
To: Evans, Karen (ENERGY); Lyon, Sam (ENERGY)
Subject: FW: Government"s Reply to AG Report | Fair Hydro
Date: October 16, 2017 11:14:45 AM

From: Teliszewsky, Andrew (ENERGY)
Sent: October 16, 2017 11:13 AM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Subject: FW: Government's Reply to AG Report | Fair Hydro

From: Teliszewsky, Andrew (ENERGY)
Sent: October-16-17 11:13 AM
To: Imbrogno, Serge (ENERGY); Angus, Helen (TBS); Thompson, Scott (MOF); Orsini, Steve (CAB)
Subject: FW: Government's Reply to AG Report | Fair Hydro

FYI Confirmed with PO this flow.

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Sent: October-16-17 11:12 AM
To: Ghiassi, Ali (MOF); Pichelli, Jason (TBS); Pichelli, Jason (TBS); Bevan, Andrew (OPO); Jancik, Mike (OPO); MacKenzie, Rebecca (OPO); Beaudry, Jennifer (OPO); Codd-Downey, Beckie (GHLO)
Cc: Berry, James (ENERGY); Giroux Namian, Orli (MOF); Gallant, Gabrielle (TBS); Nekolaichuk, Colin (ENERGY); Den Heijer, Kevin (ENERGY)
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Many thanks, in advance.

Atel/

Andrew Teliszewsky

Chief of Staff | Office of Hon. Glenn Thibeault
Ministry of Energy
andrew.teliszewsky@ontario.ca
416-327-3550 (o)
416-436-6370 (m)

FW_ MOF media inquiry - SCOPA & FHP (1).pdf

From:	Thiru, Dhil (ENERGY)
To:	Cayley, Daniel (ENERGY)
Cc:	Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject:	FW: MOF media inquiry - SCOPA & FHP
Date:	March 2, 2018 12:05:34 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

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Hi Daniel,

Could your team provide a response to the following media request below using material from the attached SCOPA package? Kindly return your response by EOD Monday.

Thanks

Media request:

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

From: Cox, Hilary (ENERGY)
Sent: March-02-18 12:03 PM
To: Thiru, Dhil (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP

Sorry, should have been clearer. Please have Tim/Daniel's shop draft a response to this using the attached package of SCOPA QAs.

From: Thiru, Dhil (ENERGY)
Sent: March 2, 2018 11:53 AM
To: Demetriades, Natasha (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: RE: MOF media inquiry - SCOPA & FHP

Hi Natasha,

Staff have suggested that DMO use the SCOPA QAs that have been used previously as a reply for this media question. Let me know if you have any questions.

Thanks.

From: Demetriades, Natasha (ENERGY)
Sent: March-02-18 11:42 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: MOF media inquiry - SCOPA & FHP

Hi Dhil: MOF has received a media inquiry from the Globe and Mail (highlighted below).

They've checked in with the OFA and they recommend that ENERGY respond to this.

Is it possible to provide some answers to this?

The reporter has no hard deadline.

Let me know, thank you.

Natasha

--

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

Auditor General 2017 Annual Report - SCOPA Ch_16.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ MOF media inquiry - SCOPA & FHP (2).pdf

From: Lightbody, Ava (ENERGY)
To: Cox, Hilary (ENERGY); Thiru, Dhil (ENERGY)
Cc: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP
Date: March 2, 2018 3:40:20 PM
Attachments: Media Request FHP numbers.docx

Hey Dhilary,

Attached are our two possible responses (in the same doc) to this media Q – understand Daniel and Steen discussed and decided to try two approaches.

Thanks,
Ava

From: Thiru, Dhil (ENERGY)
Sent: March-02-18 12:06 PM
To: Cayley, Daniel (ENERGY)
Cc: Christie, Tim (ENERGY); DeSouza, Avril (ENERGY); Lightbody, Ava (ENERGY); Pinheiro, Alex (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP

Hi Daniel,

Could your team provide a response to the following media request below using material from the attached SCOPA package? Kindly return your response by EOD Monday.

Thanks

Media request:

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete,

accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

From: Cox, Hilary (ENERGY)
Sent: March-02-18 12:03 PM
To: Thiru, Dhil (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP

Sorry, should have been clearer. Please have Tim/Daniel's shop draft a response to this using the attached package of SCOPA QAs.

From: Thiru, Dhil (ENERGY)
Sent: March 2, 2018 11:53 AM
To: Demetriades, Natasha (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: RE: MOF media inquiry - SCOPA & FHP

Hi Natasha,

Staff have suggested that DMO use the SCOPA QAs that have been used previously as a reply for this media question. Let me know if you have any questions.

Thanks.

From: Demetriades, Natasha (ENERGY)
Sent: March-02-18 11:42 AM
To: Thiru, Dhil (ENERGY)

Cc: Cox, Hilary (ENERGY)
Subject: MOF media inquiry - SCOPA & FHP

Hi Dhil: MOF has received a media inquiry from the Globe and Mail (highlighted below).

They've checked in with the OFA and they recommend that ENERGY respond to this.

Is it possible to provide some answers to this?

The reporter has no hard deadline.

Let me know, thank you.

Natasha

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Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

Media Request FHP numbers.pdf

Q. I request the detailed borrowing estimates cited by the government above [peak debt and accumulated interest], including the underlying math behind peak debt and interest charges and any assumptions made.

Version 1

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program and conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ontario Power Generation (OPG), in its role as Financial Services Manager, is responsible for developing financing plans and managing debt obligations to ensure the policy objectives of Ontario's Fair Hydro Plan are achieved. OPG is currently working to update borrowing and cost projections, which will reflect the results of the initial debt issuance in February 2018.

These updated estimates are expected shortly. We will provide the numbers as they become available.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Version 2

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program as conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ministry analysis underpinning the 2017 Long-Term Energy Plan (2017 LTEP) forecasts peak debt at approximately $20 billion and a total interest cost of less than $19 billion. These updated estimates include estimated fees charged by Ontario Power Generation (OPG) in its role as Financial Services Manager, and assume a 5 per cent average interest rate over the life of the program.

Forecasted peak debt represents the maximum annual debt balance. Total interest cost is the sum of forecasted annual interest paid over the thirty-year life of the program, which is calculated based on the average debt balance in each year and a 5 per cent average interest rate.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

FW_ MOF media inquiry - SCOPA & FHP .pdf

From: Cox, Hilary (ENERGY)
To: Thiru, Dhil (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP
Date: March 2, 2018 12:02:00 PM
Attachments: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

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Sent: March 2, 2018 11:53 AM
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Thanks.

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Sent: March-02-18 11:42 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY)
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Hi Dhil: MOF has received a media inquiry from the Globe and Mail (highlighted below).

They've checked in with the OFA and they recommend that ENERGY respond to this.

Is it possible to provide some answers to this?

The reporter has no hard deadline.

Let me know, thank you.

Natasha

--

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21

billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

Auditor General 2017 Annual Report - SCOPA Ch_17.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ Meetings with AG on Fair Hydro Plan(1).pdf

From: Cox, Hilary (ENERGY)
To: Hosick, Sarah (TBS)
Subject: FW: Meetings with AG on Fair Hydro Plan
Date: September 6, 2017 11:50:00 AM

Hi Sarah –
As requested, below is the timeline of our meetings with the AG on OFHP. Note that this does not include any meetings with agencies.

Let me know if this works for you,

HC

April 19, 2017 (3:30 pm)	Ontario Fair Hydro Plan Briefing for AG (TBS, MOF, ENERGY)
May 31, 2017 (3:30 pm)	DM Call | Auditor General
June 5, 2017 (4:30 pm)	DM Call | Auditor General
June 15, 2017 (5:15 pm)	AG phoned DM (not scheduled in calendar)
August 9, 2017(10:30 am)	DM Meeting | Auditor General

From: Hosick, Sarah (TBS)
Sent: August 23, 2017 5:19 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Meetings with AG on Fair Hydro Plan

Hi Hilary,

For backpocket purposes for Public Accounts release preparation we are putting together a timeline of all govt meetings, briefings, calls, etc with the AG that related to Fair Hydro Plan.

Are you able to pull together a list for me of dates of Energy-AG meetings and if any other organizations were present?
I have the one from April 19 that TBS and Energy were both at, but I understand there were other meetings where she met with Energy separately.

Let me know if you have any questions. Hoping to get a consolidated timeline together by end of week

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)

Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

FW_ Meetings with AG on Fair Hydro Plan.pdf

From: Cox, Hilary (ENERGY)
To: Armstrong, Hillary (ENERGY)
Cc: Hunter, Robert A. (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: FW: Meetings with AG on Fair Hydro Plan
Date: September 5, 2017 11:46:00 AM

Hi Hillary A-
As part of preparation for Public Accounts, TBS is compiling a list of all govt meetings, briefings, calls, etc with the AG that related to Fair Hydro Plan. Below is the list of OFHP meetings/briefings and calls with Energy.

Let me know when I'm approved to send back to TBS.

HC

April 19, 2017 (3:30 pm)	Ontario Fair Hydro Plan Briefing for AG (TBS, MOF, ENERGY)
May 31, 2017 (3:30 pm)	DM Call | Auditor General
June 5, 2017 (4:30 pm)	DM Call | Auditor General
June 15, 2017 (5:15 pm)	AG phoned DM (not scheduled in calendar)
August 9, 2017(10:30 am)	DM Meeting | Auditor General

From: Schlaepfer, Martin (ENERGY)
Sent: August 25, 2017 9:06 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: RE: Meetings with AG on Fair Hydro Plan

Hi Hilary,

Francesca will look into this on Monday and compile a list.

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: August 25, 2017 10:17 AM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: FW: Meetings with AG on Fair Hydro Plan

Hi Martin –
As below, TBS is asking us to compile a list of meetings, calls etc with AG related to OFHP. I've got

the info on the technical briefing we did back in the spring, but the DM's subsequent meetings and calls are something I haven't kept track of.

Could you tackle that part of the list and send to me? I'll consolidate.

HC

From: Hosick, Sarah (TBS)
Sent: August 23, 2017 5:19 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Meetings with AG on Fair Hydro Plan

Hi Hilary,

For backpocket purposes for Public Accounts release preparation we are putting together a timeline of all govt meetings, briefings, calls, etc with the AG that related to Fair Hydro Plan.

Are you able to pull together a list for me of dates of Energy-AG meetings and if any other organizations were present?
I have the one from April 19 that TBS and Energy were both at, but I understand there were other meetings where she met with Energy separately.

Let me know if you have any questions. Hoping to get a consolidated timeline together by end of week

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

FW_ Public Accounts Committee_ Hearings on Chap....pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	FW: Public Accounts Committee: Hearings on Chapter 2, 2017 Annual Report
Date:	February 15, 2018 1:00:07 PM
Attachments:	Response to Clerk_SCOPA_Signed.pdf Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.docx

Hi Martin: can you give me a call about the attached.

Thanks, Steen

From: Hartog, Erika (TBS)
Sent: February 14, 2018 3:26 PM
To: Kwamena, Boafoa (CAB); Bromm, William (CAB); Hughes, Karen (TBS); Veinot, Cindy (TBS); Donaldson, Mark (TBS); Thompson, Scott (MOF); Schuurman, Tim (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Imbrogno, Serge (ENERGY); Hume, Steen (ENERGY); HARTWICK Ken -FINANCE; john.mauti@opg.com; Kim.Marshall@ieso.ca; 'peter.gregg@ieso.ca'
Subject: FW: Public Accounts Committee: Hearings on Chapter 2, 2017 Annual Report

Good afternoon,

The response to the clerk of the committee for SCOPA has been sent. Please find the email below for your reference.

Thank you,

Erika

From: Hartog, Erika (TBS) **On Behalf Of** Angus, Helen (TBS)
Sent: February-14-18 3:10 PM
To: 'comm-publicaccounts@ola.org'
Cc: 'ernie.hardemanco@pc.ola.org'; bonnie.lysyk@auditor.on.ca; Skoberne, Vivienne (TBS)
Subject: Public Accounts Committee: Hearings on Chapter 2, 2017 Annual Report

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Édifice Whitney, bureau 5320
99, rue Wellesley Ouest
Toronto (Ontario) M7A 1A1
Tél. : 416 325-1607
Téléc. : 416 325-1612

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch

Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

Ministry of Energy
- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Original signed by

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

Room 5320, Whitney Block
99 Wellesley Street West
Toronto, ON M7A 1A1
Tel.: 416-325-1607
Fax: 416-325-1612

Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
Conseil de gestion du gouvernement

Édifice Whitney, bureau 5320
99, rue Wellesley Ouest
Toronto (Ontario) M7A 1A1
Tél. : 416 325-1607
Téléc. : 416 325-1612

Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

.../2

Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

FW_ Public Accounts Committee_ Hearings on Sect....pdf

From:	Nucciarone, Michael (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	FW: Public Accounts Committee: Hearings on Section 3.06, 2017 Annual Report
Date:	February 21, 2018 6:26:20 PM
Attachments:	20180221 DM Letter to Clerk of the Committee.pdf Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20_.pdf

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FYI...will also share with John.

Sent with BlackBerry Work
(www.blackberry.com)

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Date: Wednesday, Feb 21, 2018, 6:06 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Public Accounts Committee: Hearings on Section 3.06, 2017 Annual Report

Hi Steen,

Attached, as previously mentioned, is the covering letter and status table that was sent to the Clerk.

I'll also share with comms.

Thanks, and have a great night.
Michael

20180221 DM Letter to Clerk of the Committee.pdf

Ministry of Energy

Office of the Deputy Minister
Hearst Block, 4th Floor
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Ministère de l'Énergie

Bureau du sous-ministre
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Téléc.: 416-327-6755

Ontario

February 21, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto ON M7A 1A2

Dear Mr. Koch:

I am writing regarding the review of Independent Electricity System Operator – Market Oversight and Cybersecurity (Section 3.06 of Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, March 7, 2018 from 12:30 p.m. to 3:00 p.m.:

Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Energy Supply Policy Division

Independent Electricity System Operator (IESO)
- Peter Gregg, President and Chief Executive Officer
- Leonard Kula, Chief Operating Officer, Vice President, Planning, Acquisition and Operations
- Glenn McDonald, Director, Market Assessment and Compliance Division
- Sorana Ionescu, Vice President, Information and Technology Services (Acting)

As per the January 29, 2018, memo sent to you from the Ontario Energy Board (OEB), the following individuals from the OEB will also participate:
- Rosemarie Leclair, Chair and Chief Executive Officer
- Glen Leslie, Chair, Market Surveillance Panel
- Martine Band, Associate General Counsel, Legal Services
- Mary Anne Aldred, Chief Operating Officer and General Counsel

In addition, please find enclosed a copy of the summary status table in response to Chapter 3 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Martin Schlaepfer, Director of Operations at 416-326-7688 or Martin.Schlaepfer@ontario.ca if you require further information.

Sincerely,

Serge Imbrogno
Deputy Minister

c: Ernie Hardeman, MPP, Chair of Committee
Bonnie Lysyk, Auditor General

Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

FW_ Public Accounts _Chapter 2 Swim Lanes(1).pdf

From:	Armstrong, Hillary (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	FW: Public Accounts _Chapter 2 Swim Lanes
Date:	January 18, 2018 1:03:11 PM
Attachments:	Copy of SCOPA_Swim Lanes_ENERGY.XLSX

Do you think this one needs to go to MO first? Seemed pretty high level, but thought I'd check.

Sent with BlackBerry Work
(www.blackberry.com)

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Date: Thursday, Jan 18, 2018, 11:32 AM
To: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Subject: FW: Public Accounts _Chapter 2 Swim Lanes

FYI

From: Hume, Steen (ENERGY)
Sent: January 18, 2018 11:06 AM
To: Schlaepfer, Martin (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: Public Accounts _Chapter 2 Swim Lanes

Hi Martin: attached are my edits to TBS's "swim lane" chart. Edits are in red. In the absence of having a lot detail on the overall approach, I've taken a light touch.

So that it can be part of tomorrow discussion with DMs, I'd like to send this back to TBS today if possible.

When you moment, can you give me a call. Thanks, Steen

Thanks,

Copy of SCOPA_Swim Lanes_ENERGY.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Topic	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thomson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting Advisory Panel Compensation		Overall - Pension Asset Accounting	Details - Pension Asset Accounting	Details - Pension Asset Accounting Advisory Panel Compensation								
IESO Accounting							**IESO LEAD**					
Rec # 2 - IESO Market Accounts Rec #3 - IESO Rate-Regulated Accounting AG Audit of 2017 Statements ~~OPG/IESO 'Inappropriate' Expenses~~ ~~OPG Executive Compensation~~		Relationship with AG - AG Audit of 2017 Statements		OPCD decision to accept IESO market accounts OPCD decision to accept IESO rate-regulated accounting			OFHP Policy Overview ~~OPG/IESO 'Inappropriate' Expenses~~ ~~OPG Executive Compensation~~	OFHP Policy Overview	~~Further details – 'Inappropriate' Expenses~~ ~~Further details - OPG Executive Compensation~~		IESO's Role in OFHP / General Overview ~~IESO Rate-Regulated Accounting~~	IESO Market Accounts IESO Rate-Regulated Acocunting AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 - OFHP Accounting Rec #6 - 'Legislated Accounting' Rec #9 - Arm's Length Trusts Records Disclosure / Process Re-design of hydro bills		Ministry FOI/OPQ	Decision to accept OFHP accounting OFHP - 'legislated' accounting		Financing Structure	Financing Structure	OFHP Policy Overview ~~Arm's Length Trusts~~ Records Disclosure / Process Followed Re-design of hydro bills	OFHP Policy Overview	OPG's Role in OFHP / General Overview ~~OPG Trust~~ Records Disclosure / Process Followed	OPG Finaning Struture / Transaction OPG Accounting / Trust	IESO's Role in OFHP / General Overview Records Disclosure / Process Followed	IESO Financing Struture
Pre-Election Report					**PRE-ELECTION REPORT LEAD**							
Rec #10 - Pre-Election Report on Ontario's Finances			Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #6 - Province's Debt Burden Financial Accountability Officer Reports Credit Ratings					Province's Debt Burden Financial Accountability Officer Reports Credit Ratings	Province's Debt Burden; Repayment plan Financial Accountability Officer Reports Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #7 External Advisors Rec #10 Timeline of Finalization of Financial Statements Audit Opinion		External Advisors Timeline of Finalization of Financial Statements	Timeline of finanlization of financial statements Audit Opinions	Audit Opinions								
Other Topics												

DRAFT

FW_ Public Accounts _Chapter 2 Swim Lanes.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Armstrong, Hillary (ENERGY)
Subject:	FW: Public Accounts _Chapter 2 Swim Lanes
Date:	January 18, 2018 12:12:00 PM
Attachments:	Copy of SCOPA_Swim Lanes_ENERGY.XLSX

Can you bring this forward later today.

From: Hume, Steen (ENERGY)
Sent: January 18, 2018 11:06 AM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Public Accounts _Chapter 2 Swim Lanes

Hi Martin: attached are my edits to TBS's "swim lane" chart. Edits are in red. In the absence of having a lot detail on the overall approach, I've taken a light touch.

So that it can be part of tomorrow discussion with DMs, I'd like to send this back to TBS today if possible.

When you moment, can you give me a call. Thanks, Steen

Thanks,

Copy of SCOPA_Swim Lanes_ENERGY_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Topic	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thomson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting Advisory Panel Compensation		Overall - Pension Asset Accounting	Details - Pension Asset Accounting	Details - Pension Asset Accounting Advisory Panel Compensation								
IESO Accounting							**IESO LEAD**					
Rec # 2 - IESO Market Accounts Rec #3 - IESO Rate-Regulated Accounting AG Audit of 2017 Statements ~~OPG/IESO 'Inappropriate' Expenses~~ ~~OPG Executive Compensation~~		Relationship with AG - AG Audit of 2017 Statements		OPCD decision to accept IESO market accounts OPCD decision to accept IESO rate-regulated accounting			OFHP Policy Overview ~~OPG/IESO 'Inappropriate' Expenses~~ ~~OPG Executive Compensation~~	OFHP Policy Overview	~~Further details – 'Inappropriate' Expenses~~ ~~Further details - OPG Executive Compensation~~		IESO's Role in OFHP / General Overview ~~IESO Rate-Regulated Accounting~~	IESO Market Accounts IESO Rate-Regulated Acocunting AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 - OFHP Accounting Rec #6 - 'Legislated Accounting' Rec #9 - Arm's Length Trusts Records Disclosure / Process Re-design of hydro bills		Ministry FOI/OPQ	Decision to accept OFHP accounting OFHP - 'legislated' accounting		Financing Structure	Financing Structure	OFHP Policy Overview ~~Arm's Length Trusts~~ Records Disclosure / Process Followed Re-design of hydro bills	OFHP Policy Overview	OPG's Role in OFHP / General Overview ~~OPG Trust~~ Records Disclosure / Process Followed	OPG Finaning Struture / Transaction OPG Accounting / Trust	IESO's Role in OFHP / General Overview Records Disclosure / Process Followed	IESO Financing Struture
Pre-Election Report					**PRE-ELECTION REPORT LEAD**							
Rec #10 - Pre-Election Report on Ontario's Finances			Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #6 - Province's Debt Burden Financial Accountability Officer Reports Credit Ratings					Province's Debt Burden Financial Accountability Officer Reports Credit Ratings	Province's Debt Burden; Repayment plan Financial Accountability Officer Reports Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #7 External Advisors Rec #10 Timeline of Finalization of Financial Statements Audit Opinion		External Advisors Timeline of Finalization of Financial Statements	Timeline of finanlization of financial statements Audit Opinions	Audit Opinions								
Other Topics												

DRAFT

FW_ REVISED - scope document for SCOPA briefing.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Armstrong, Hillary (ENERGY)
Cc:	Nucciarone, Michael (ENERGY); Berg, Denna (ENERGY); Perkins, Michael (ENERGY)
Subject:	FW: REVISED - scope document for SCOPA briefing
Date:	January 19, 2018 12:42:00 PM
Attachments:	SCOPA_Swim Lanes_DRAFT_20180119 v3.xlsx

From: Ue, Allison (TBS)
Sent: January 19, 2018 12:39 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>
Cc: Skoberne, Vivienne (TBS) <Vivienne.Skoberne@ontario.ca>; Nelson, Dane (TBS) <Dane.Nelson@ontario.ca>
Subject: REVISED - scope document for SCOPA briefing

Hi there

Attached is the revised swim lanes document for this afternoon's meeting.

FYI – we have moved the meeting to room 6501 to accommodate folks.

Thanks,
Allison

SCOPA_Swim Lanes_DRAFT_20180119 v3.pdf

DRAFT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #3 IESO Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust	Financing Structure	Financing Structure				OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

FW_ RUSH - Auditor General 2017 Annual Report -...(1).pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date: February 28, 2018 11:15:00 AM
Attachments: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)-edits.docx

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Hi –
Can you strip out the ICI QA and prep it as a standalone?

HC

From: Christie, Tim (ENERGY)
Sent: February 28, 2018 11:02 AM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-28-18 10:19 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Tim and Daniel -
As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP what implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_18.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million. According to the Ontario Financing Authority, this represents a spread of 23 basis points over Ontario long-term debt.

Commented [CT(1]: As reported by OFA in email of Feb 7.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

~~Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.~~]

Commented [CD(2]: Optional 101 content

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The~~se~~ smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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FW_ RUSH - Auditor General 2017 Annual Report -....pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date:	February 28, 2018 11:09:00 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)-edits.docx

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Hi Steen –
Edits to QA to include ICI and basis point spread.

HC

Auditor General 2017 Annual Report - SCOPA Ch_19.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million. According to the Ontario Financing Authority, this represents a spread of 23 basis points over Ontario long-term debt.

Commented [CT(1]: As reported by OFA in email of Feb 7.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

~~Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.~~]

Commented [CD(2]: Optional 101 content

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The~~se~~ smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

CONFIDENTIAL

FW_ Rate Mitigation Implementation (1).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: Rate Mitigation Implementation
Date:	October 26, 2017 4:08:00 PM
Attachments:	Action Items_Oct12.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

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Please take a look in the morning.

Daniel

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Ridd, Carl (ENERGY); Edwards, Matthew (ENERGY); Katona, Keley (MOF); Montgomery, Kaitlin (MOF); Thouin, Alena (ENERGY)
Subject: FW: Rate Mitigation Implementation

Hi All –
Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

Action Items_Oct12.pdf

Action Items
October 12, 2017

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
        - OPG started rating agency process last week with DBRS and Moody's
        - OPG/IESO continue to work through commercial agreement
    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - OFA/OPG continue to refine agreement – quantum/term etc.
    - Fees and Interest Payments (ENERGY)
        - Interest payments during moratorium can be dealt with through variance account and minor amendments to the General Reg for LRC on the 16th
            - Consolidation analysis to be shared with TBS
        - Fees reg would include 7.5 basis points for the base fee for 2017/2018 and OEB would do a review of comprables for future years. Internal OPG costs will become a pass through.
            - CO to explore direct to Cabinet on 18th
    - Letter of Credit (ENERGY / IESO / OPG)
        - Ministry will work on GA regulatory amendment for LRC on Oct 16 to allow these cost to be recovered
            - CO to explore direct to Cabinet on 18th
        - Ministry/OPG/IESO/OFA to determine primacy of payment between Crown, Generators Underwitters during four year moratorium – (could require regulatory amendment)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - Need to go to LRC to proclaim section to allow it to move to tax base (tentatively Dec 7 LRC)
        - CRA has accepted online sing up
        - FNDC update from Hydro One on Oct 2 went well
    - Affordability Fund (CRED)
        - Plan is to announce Fund on Oct 24 in Hamilton
        - Soft launch is planned for today (1-800 number and microsite)

2017 Outstanding Business Issues - Week of O_2.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

2017-09-27 Consolidated - OFHP Matrix - Week .pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

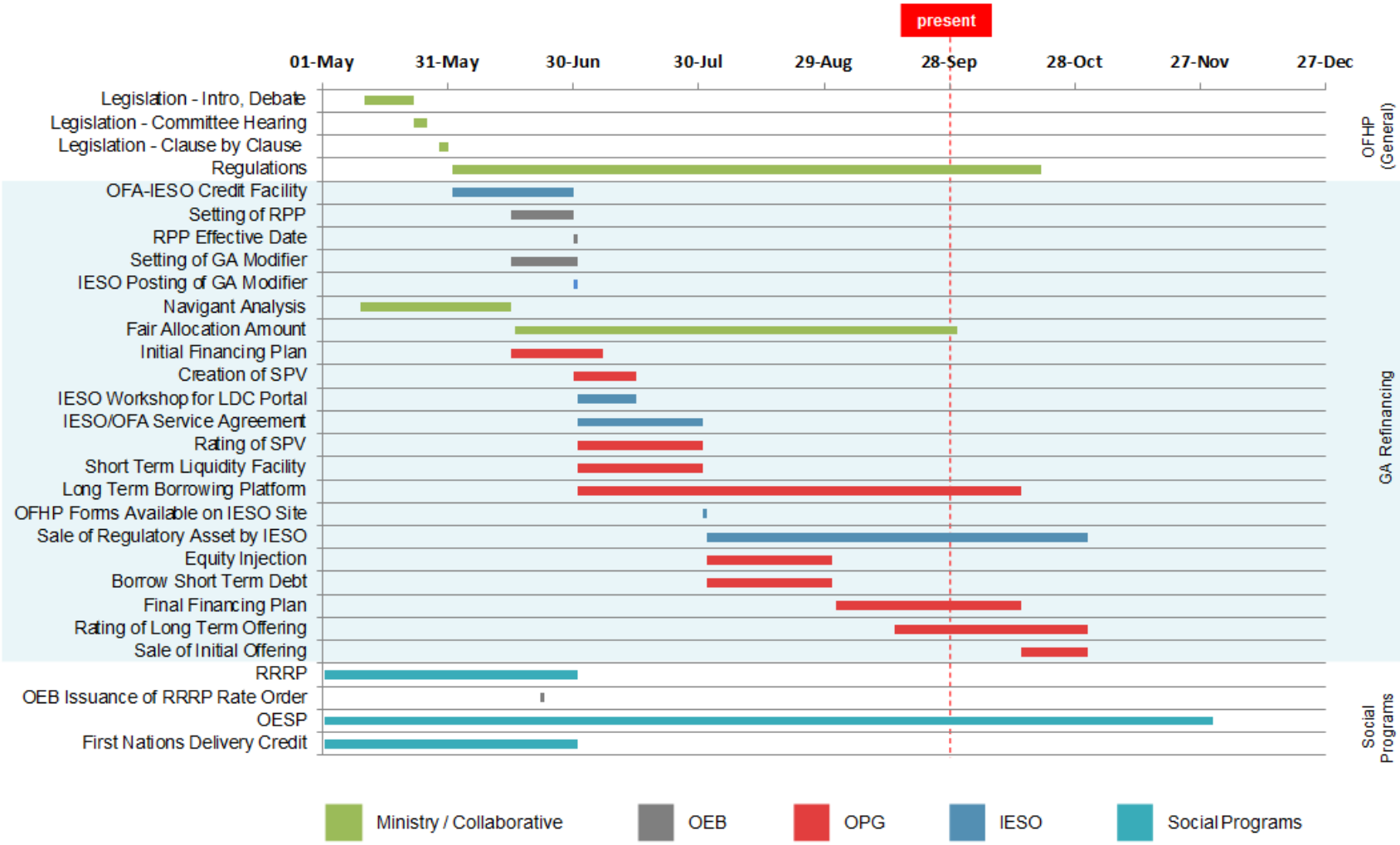
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation (2).pdf

From:	Edwards, Matthew (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject:	FW: Rate Mitigation Implementation
Date:	October 26, 2017 4:17:31 PM
Attachments:	Action Items_Oct12.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

---

Can you update the Affordability Fund items for this?

Due noon tomorrow.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation

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Action Items_Oct12_1.pdf

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October 12, 2017

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        - OFA/OPG continue to refine agreement – quantum/term etc.
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        - Soft launch is planned for today (1-800 number and microsite)

2017 Outstanding Business Issues - Week of O_3.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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2017-09-27 Consolidated - OFHP Matrix - Week _1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
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2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
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Item	Key Deliverables / Considerations	Timing / Next Steps
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• ENERGY and LSB	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
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• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

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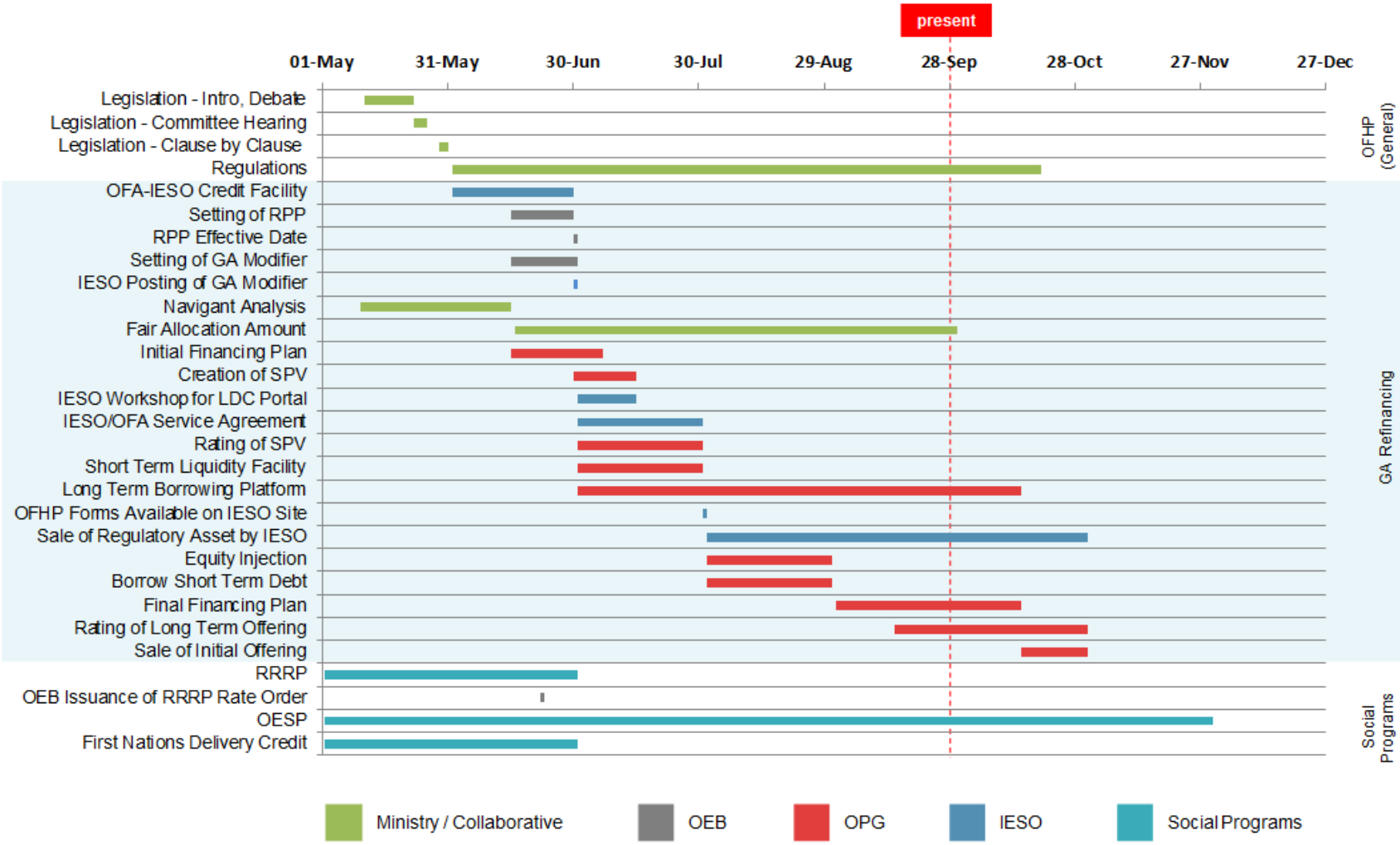
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation (3).pdf

From:	Christie, Tim (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	FW: Rate Mitigation Implementation
Date:	October 27, 2017 9:25:02 AM
Attachments:	Action Items_Oct12.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

---

Ava please update this morning.

From: Cox, Hilary (ENERGY)
Sent: October-26-17 4:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Ridd, Carl (ENERGY); Edwards, Matthew (ENERGY); Katona, Keley (MOF); Montgomery, Kaitlin (MOF); Thouin, Alena (ENERGY)
Subject: FW: Rate Mitigation Implementation

Hi All –

Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

Action Items_Oct12_2.pdf

Action Items
October 12, 2017

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
        - OPG started rating agency process last week with DBRS and Moody's
        - OPG/IESO continue to work through commercial agreement
    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - OFA/OPG continue to refine agreement – quantum/term etc.
    - Fees and Interest Payments (ENERGY)
        - Interest payments during moratorium can be dealt with through variance account and minor amendments to the General Reg for LRC on the 16th
            - Consolidation analysis to be shared with TBS
        - Fees reg would include 7.5 basis points for the base fee for 2017/2018 and OEB would do a review of comprables for future years. Internal OPG costs will become a pass through.
            - CO to explore direct to Cabinet on 18th
    - Letter of Credit (ENERGY / IESO / OPG)
        - Ministry will work on GA regulatory amendment for LRC on Oct 16 to allow these cost to be recovered
            - CO to explore direct to Cabinet on 18th
        - Ministry/OPG/IESO/OFA to determine primacy of payment between Crown, Generators Underwitters during four year moratorium – (could require regulatory amendment)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - Need to go to LRC to proclaim section to allow it to move to tax base (tentatively Dec 7 LRC)
        - CRA has accepted online sing up
        - FNDC update from Hydro One on Oct 2 went well
    - Affordability Fund (CRED)
        - Plan is to announce Fund on Oct 24 in Hamilton
        - Soft launch is planned for today (1-800 number and microsite)

2017 Outstanding Business Issues - Week of O_4.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

2017-09-27 Consolidated - OFHP Matrix - Week _2.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

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	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
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5) Establishing an Affordability Fund (CRED)		
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Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
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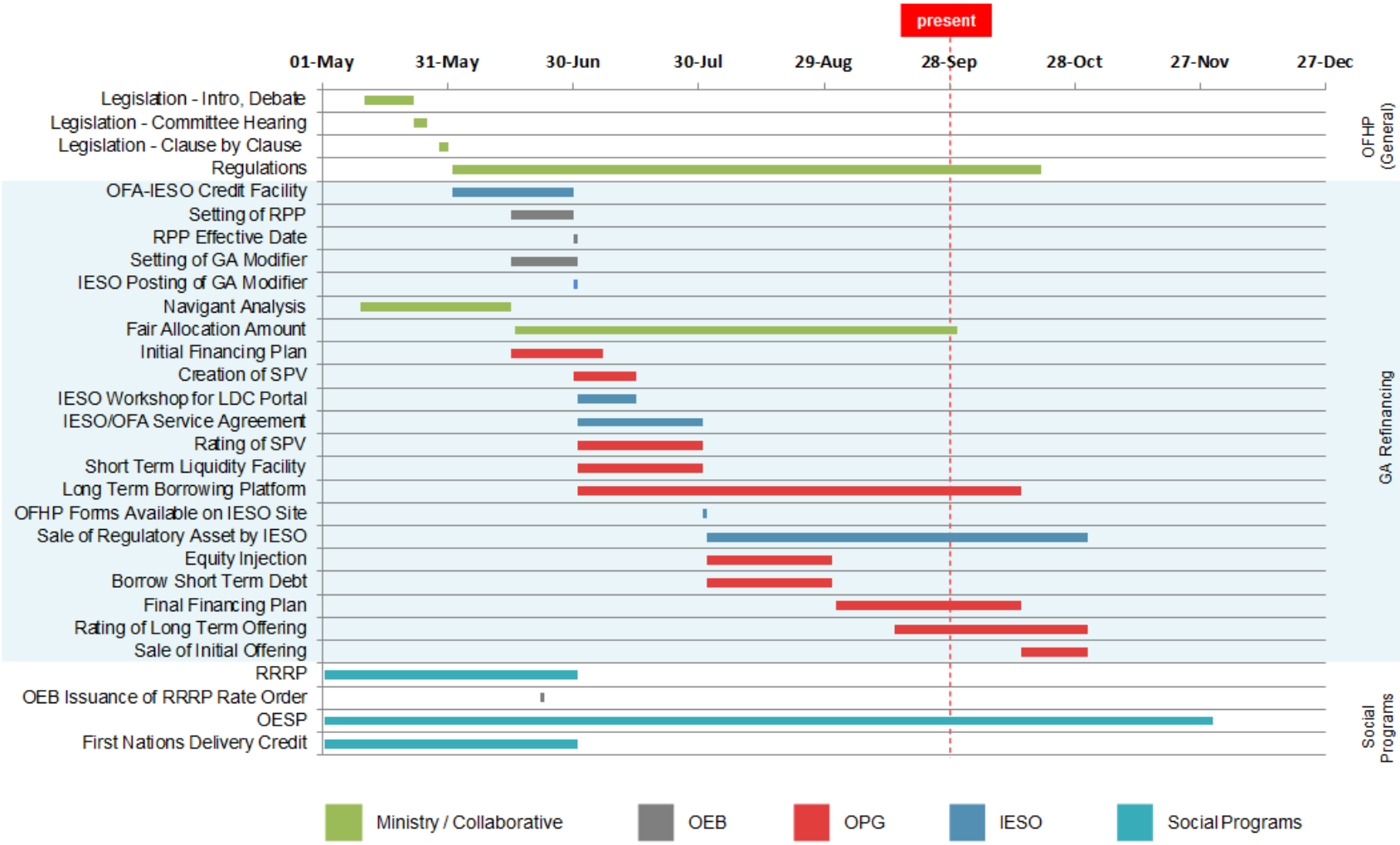
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation (4).pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Di Tullio, Yvonne (ENERGY); Qureshi, Musab (ENERGY); Kolodziej, Monika (ENERGY)
Subject:	FW: Rate Mitigation Implementation
Date:	October 27, 2017 1:34:56 PM
Attachments:	2017-10-26 Consolidated - OFHP Matrix - Week of October 23.docx

Usman, please see tracked updates attached. Due to ADMO midday. Thanks, Emma

---

From: Di Tullio, Yvonne (ENERGY)
Sent: October-27-17 11:51 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: RE: Rate Mitigation Implementation

Here you are Emma. I went a bit more detailed than the action items list; for your consideration. thanks

---

From: Schwab-Pflug, Emma (ENERGY)
Sent: October-27-17 11:25 AM
To: Di Tullio, Yvonne (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation

Apologies, Yvonne, I've actioned this very later. Could you kindly update the two attached documents for as soon as you're able this afternoon? I think this should be quite straightforward, pulling from the news release.

Thank you,
Emma

From: Edwards, Matthew (ENERGY)
Sent: October-26-17 4:18 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Can you update the Affordability Fund items for this?

Due noon tomorrow.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>;

Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation

Hi All –
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Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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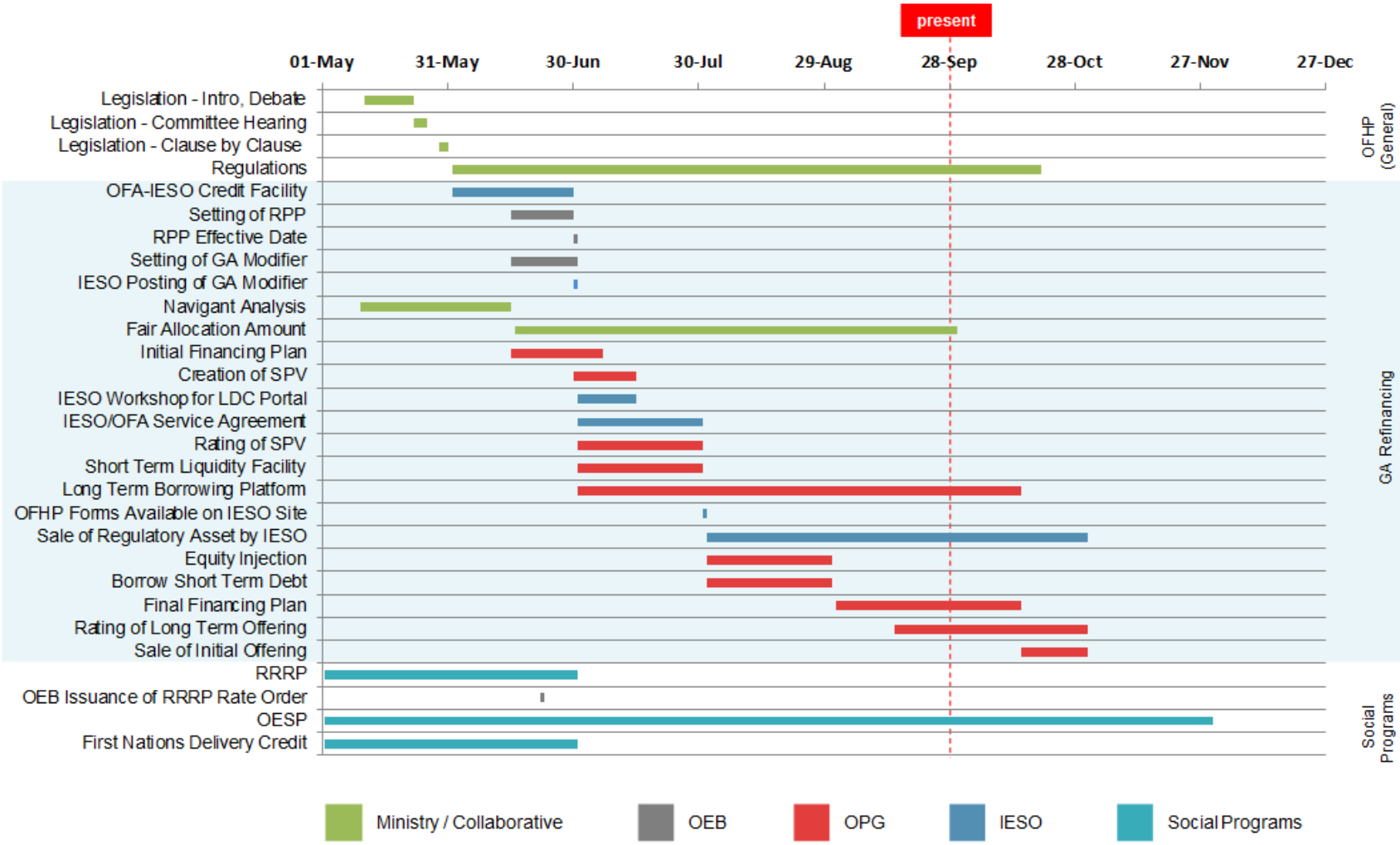
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation (5).pdf

From: Edwards, Matthew (ENERGY)
To: Sermat-Harding, Kaili (ENERGY)
Subject: FW: Rate Mitigation Implementation
Date: October 27, 2017 5:22:00 PM
Attachments: 2017-10-26 Consolidated - OFHP Matrix - Week of October 23 us.docx

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Kaili,

CEEB has provided the attached updates to the OFHP Rate Mitigation matrix.

OK to send to ESP?

Thanks,

Matt

From: Syed, Usman (ENERGY)
Sent: October 27, 2017 5:21 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Cc: Schwab-Pflug, Emma (ENERGY) <Emma.Schwab-Pflug@ontario.ca>; Kolodziej, Monika (ENERGY) <Monika.Kolodziej@ontario.ca>
Subject: RE: Rate Mitigation Implementation

Hi Matt – here is ther OFHP matrix.

From: Schwab-Pflug, Emma (ENERGY)
Sent: October 27, 2017 1:35 PM
To: Syed, Usman (ENERGY)
Cc: Di Tullio, Yvonne (ENERGY); Qureshi, Musab (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Usman, please see tracked updates attached. Due to ADMO midday. Thanks, Emma

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From: Di Tullio, Yvonne (ENERGY)
Sent: October-27-17 11:51 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: RE: Rate Mitigation Implementation

Here you are Emma. I went a bit more detailed than the action items list; for your consideration. thanks

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From: Schwab-Pflug, Emma (ENERGY)
Sent: October-27-17 11:25 AM
To: Di Tullio, Yvonne (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation

Apologies, Yvonne, I've actioned this very later. Could you kindly update the two attached documents for as soon as you're able this afternoon? I think this should be quite straightforward, pulling from the news release.

Thank you,
Emma

From: Edwards, Matthew (ENERGY)
Sent: October-26-17 4:18 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Can you update the Affordability Fund items for this?

Due noon tomorrow.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation

Hi All –
Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

2017-10-26 Consolidated - OFHP Matrix - Week _1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

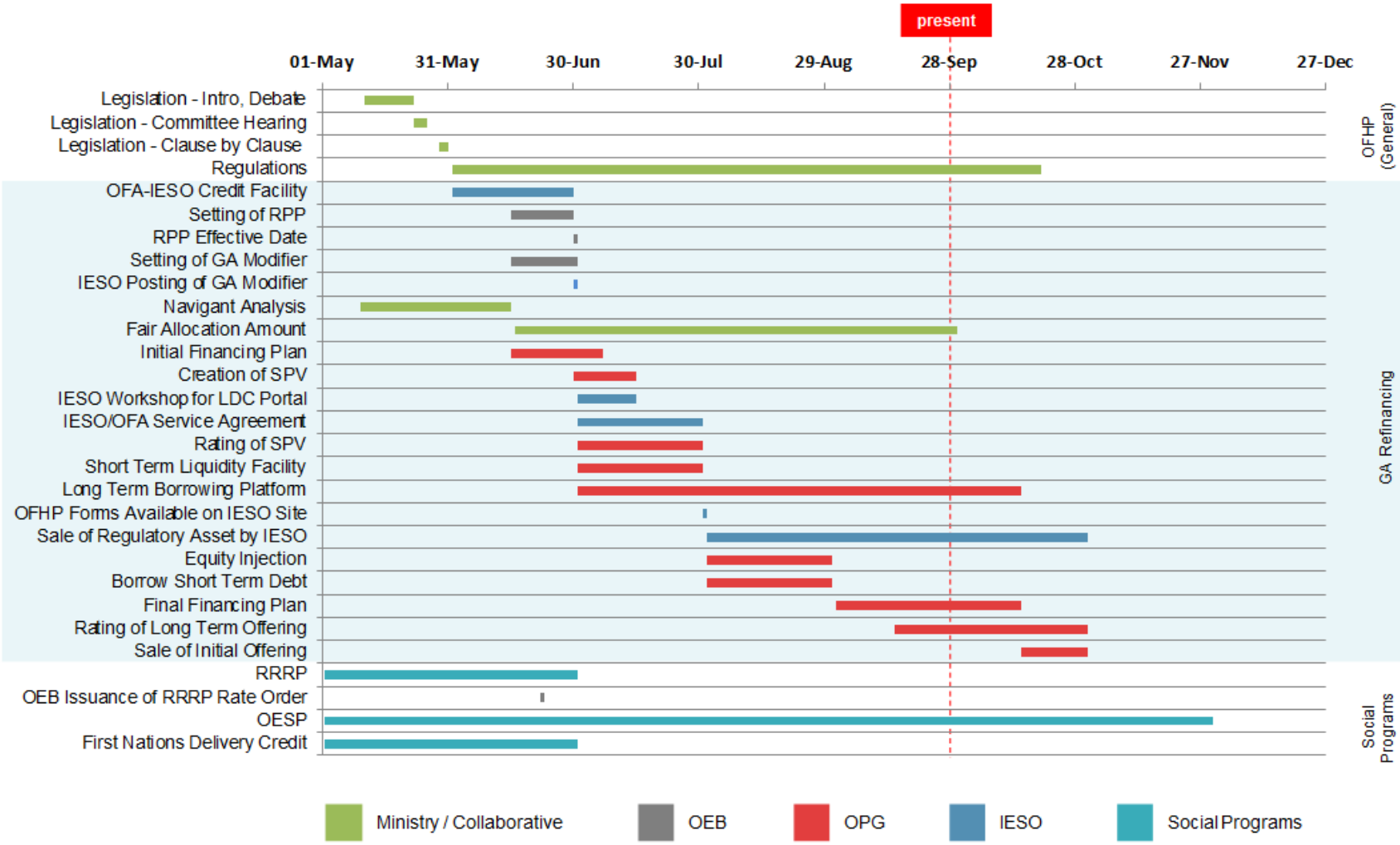
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	~~**October 2017:**~~ ~~• Soft launch of microsite and 1-800 number Oct 12~~ ~~• Oct. 243 formal announcement in Hamilton involving the Minister~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017 • Oct. 12: Soft launch of microsite and 1-800 number. • Oct. 24 formal announcement in Hamilton involving the Minister of Energy. • As of Oct. 23, 66 applications from 6 LDCs processed through the AFT program. • On Oct. 24, the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions.	continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has~~is~~ amended~~ing~~ the TPA with the Affordability Fund Trust to ~~request~~ require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report

Item	Key Deliverables / Considerations	Timing / Next Steps
	• AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation .pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Ridd, Carl (ENERGY); Edwards, Matthew (ENERGY); Katona, Keley (MOF); Montgomery, Kaitlin (MOF); Thouin, Alena (ENERGY)
Subject:	FW: Rate Mitigation Implementation
Date:	October 26, 2017 4:07:00 PM
Attachments:	Action Items_Oct12.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

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Hi All –

Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

Action Items_Oct12_3.pdf

Action Items
October 12, 2017

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
        - OPG started rating agency process last week with DBRS and Moody's
        - OPG/IESO continue to work through commercial agreement
    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - OFA/OPG continue to refine agreement – quantum/term etc.
    - Fees and Interest Payments (ENERGY)
        - Interest payments during moratorium can be dealt with through variance account and minor amendments to the General Reg for LRC on the 16th
            - Consolidation analysis to be shared with TBS
        - Fees reg would include 7.5 basis points for the base fee for 2017/2018 and OEB would do a review of comprables for future years. Internal OPG costs will become a pass through.
            - CO to explore direct to Cabinet on 18th
    - Letter of Credit (ENERGY / IESO / OPG)
        - Ministry will work on GA regulatory amendment for LRC on Oct 16 to allow these cost to be recovered
            - CO to explore direct to Cabinet on 18th
        - Ministry/OPG/IESO/OFA to determine primacy of payment between Crown, Generators Underwitters during four year moratorium – (could require regulatory amendment)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - Need to go to LRC to proclaim section to allow it to move to tax base (tentatively Dec 7 LRC)
        - CRA has accepted online sing up
        - FNDC update from Hydro One on Oct 2 went well
    - Affordability Fund (CRED)
        - Plan is to announce Fund on Oct 24 in Hamilton
        - Soft launch is planned for today (1-800 number and microsite)

2017 Outstanding Business Issues - Week of O_5.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

2017-09-27 Consolidated - OFHP Matrix - Week _3.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

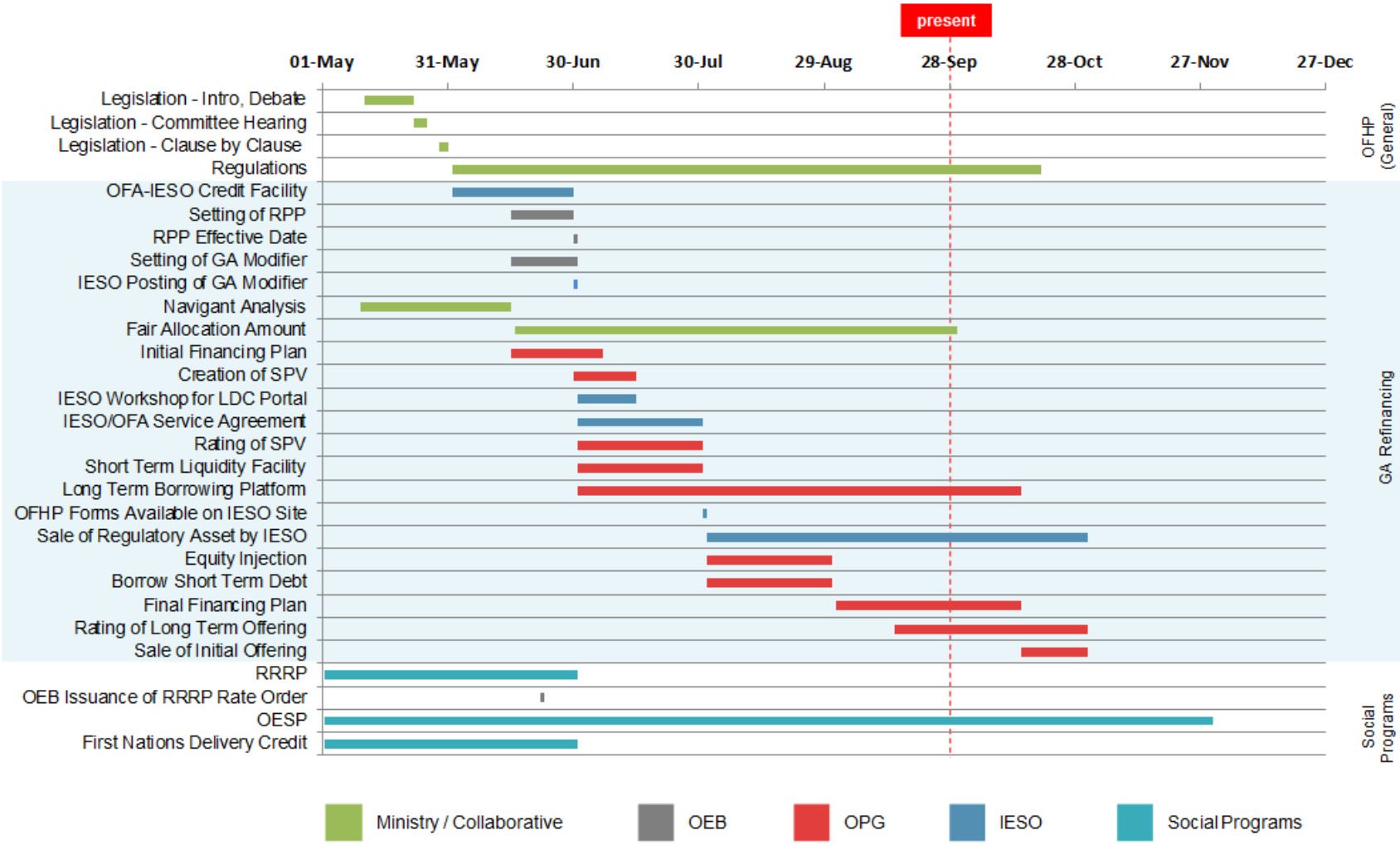
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation Group(1).pdf

From: Cayley, Daniel (ENERGY)
To: Lightbody, Ava (ENERGY); O"Riordan, Eamon (ENERGY)
Subject: FW: Rate Mitigation Implementation Group
Date: October 10, 2017 6:25:00 PM
Attachments: Action Items_ Sept 28_v2.docx
2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx
2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hi – please update tomorrow. I will share updates from other groups for consolidation s they come in.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject: FW: Rate Mitigation Implementation Group

Hi All –
Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

Action Items_ Sept 28_v2.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
        - Fees and interest payments during the moratorium period regulations are underdevelopment. OPG advise that these are required when going back to rating agencies. Regulations are tracking to LRC on October 16
        - As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc). To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

    - Business Item (OPG/IGS)
        - Items are tracking towards completition in Fall.

    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

    - Fees, Interest Payments and FAA Letter (ENERGY)
        - Fees and interest payment regulations are under development and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts will also be circulated to TBS/OPCD

2) Estimates
    - Ministry prepping for questions related to OFHP
    - IESO and OPG representative to attend to answer specifc questions

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

2017-09-27 Consolidated - OFHP Matrix - Week _4.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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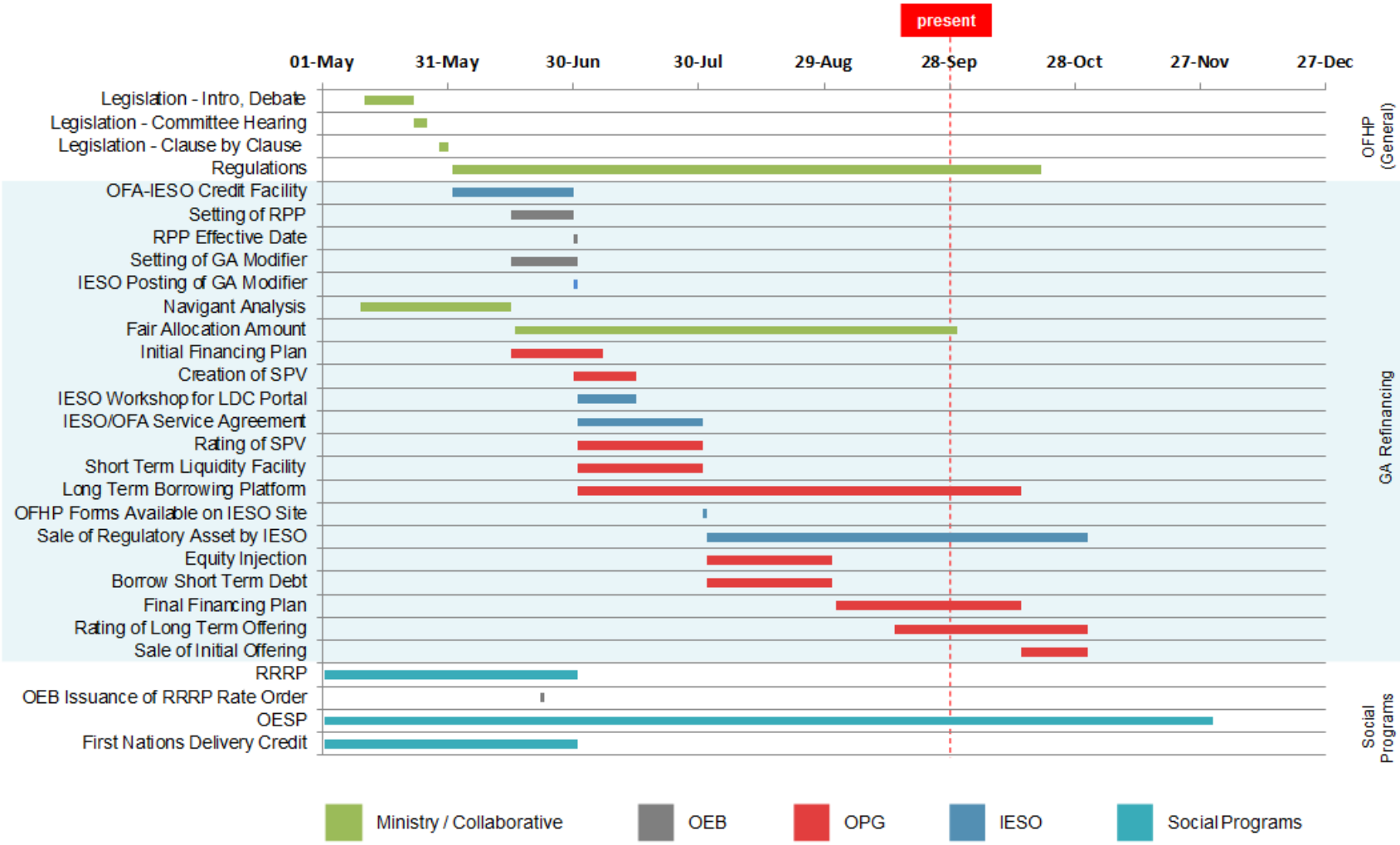
Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017 Outstanding Business Issues - Week of S.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

FW_ Rate Mitigation Implementation Group(2).pdf

From:	Edwards, Matthew (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY)
Subject:	FW: Rate Mitigation Implementation Group
Date:	October 11, 2017 8:46:00 AM
Attachments:	Action Items_ Sept 28_v2.docx 2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Is there anything to update in the OFHP Matrix? We would need this back for Kaili around 3pm.

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –
Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

Action Items_ Sept 28_v2_1.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
        - Fees and interest payments during the moratorium period regulations are underdevelopment. OPG advise that these are required when going back to rating agencies. Regulations are tracking to LRC on October 16
        - As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc). To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

    - Business Item (OPG/IGS)
        - Items are tracking towards completition in Fall.

    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

    - Fees, Interest Payments and FAA Letter (ENERGY)
        - Fees and interest payment regulations are under development and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts will also be circulated to TBS/OPCD

2) Estimates
    - Ministry prepping for questions related to OFHP
    - IESO and OPG representative to attend to answer specifc questions

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

2017-09-27 Consolidated - OFHP Matrix - Week _5.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
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• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
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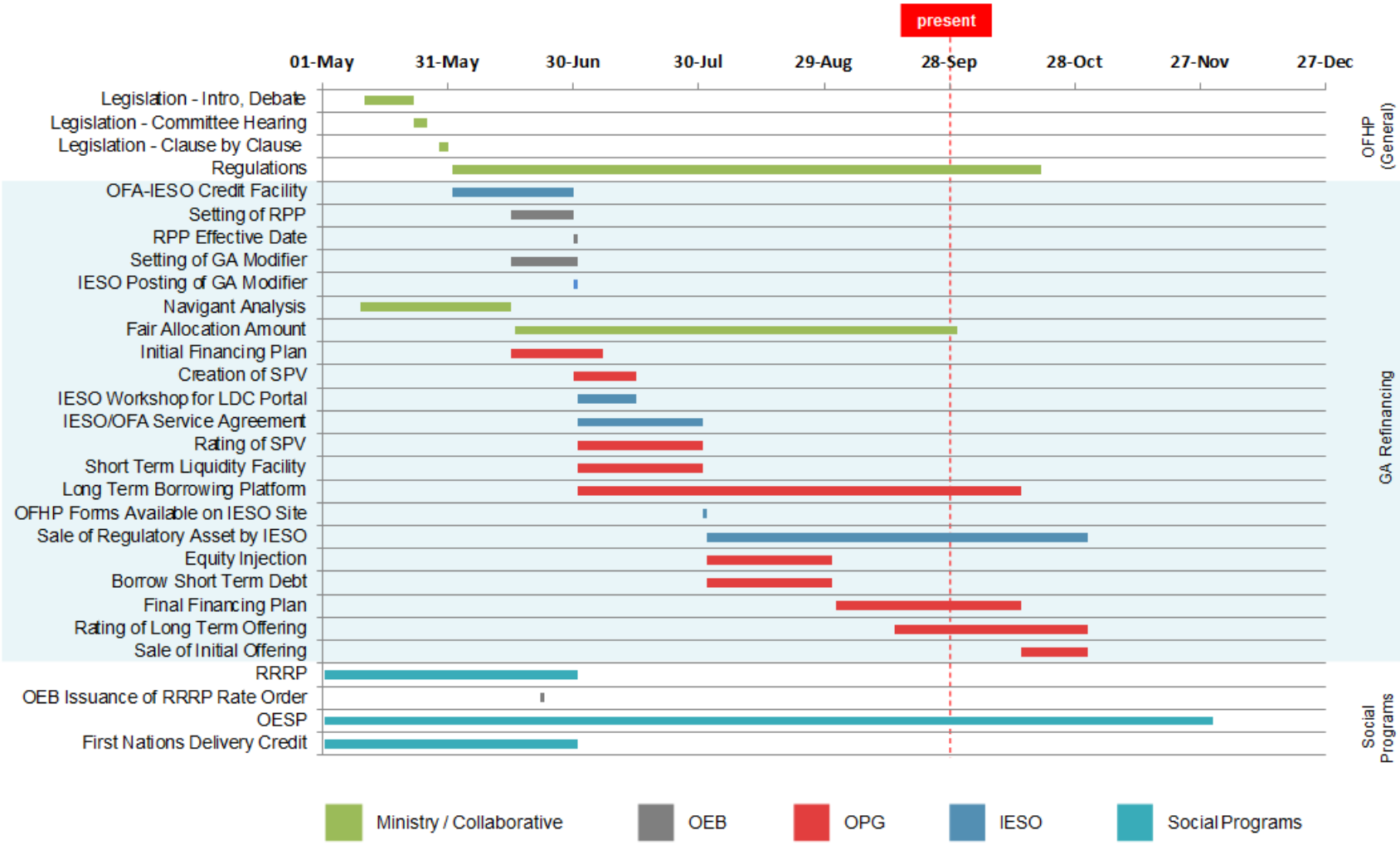
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017 Outstanding Business Issues - Week of S_1.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
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OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

FW_ Rate Mitigation Implementation Group(3).pdf

From:	Cox, Hilary (ENERGY)
To:	Lightbody, Ava (ENERGY); O"Riordan, Eamon (ENERGY); Ho, Larissa (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:27:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

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CRED edits.

From: Edwards, Matthew (ENERGY)
Sent: October 11, 2017 3:27 PM
To: Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Edits attached.

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 3:24 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Minor edits.

From: Cox, Hilary (ENERGY)
Sent: October 11, 2017 2:47 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

Hi All –
Apologies, but is there any chance I can get these earlier? Like, any time now?

HC

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM

To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –
Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _6.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
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• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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Item	Key Deliverables / Considerations	Timing / Next Steps
	application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
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• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
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Item	Key Deliverables / Considerations	Timing / Next Steps
	August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees ~~continue to~~ worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • ~~Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund~~Hydro One convened meetings with a number of LDCs in late September to review program design details. • Most recent Board meeting took place on October 5, 2017.	with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
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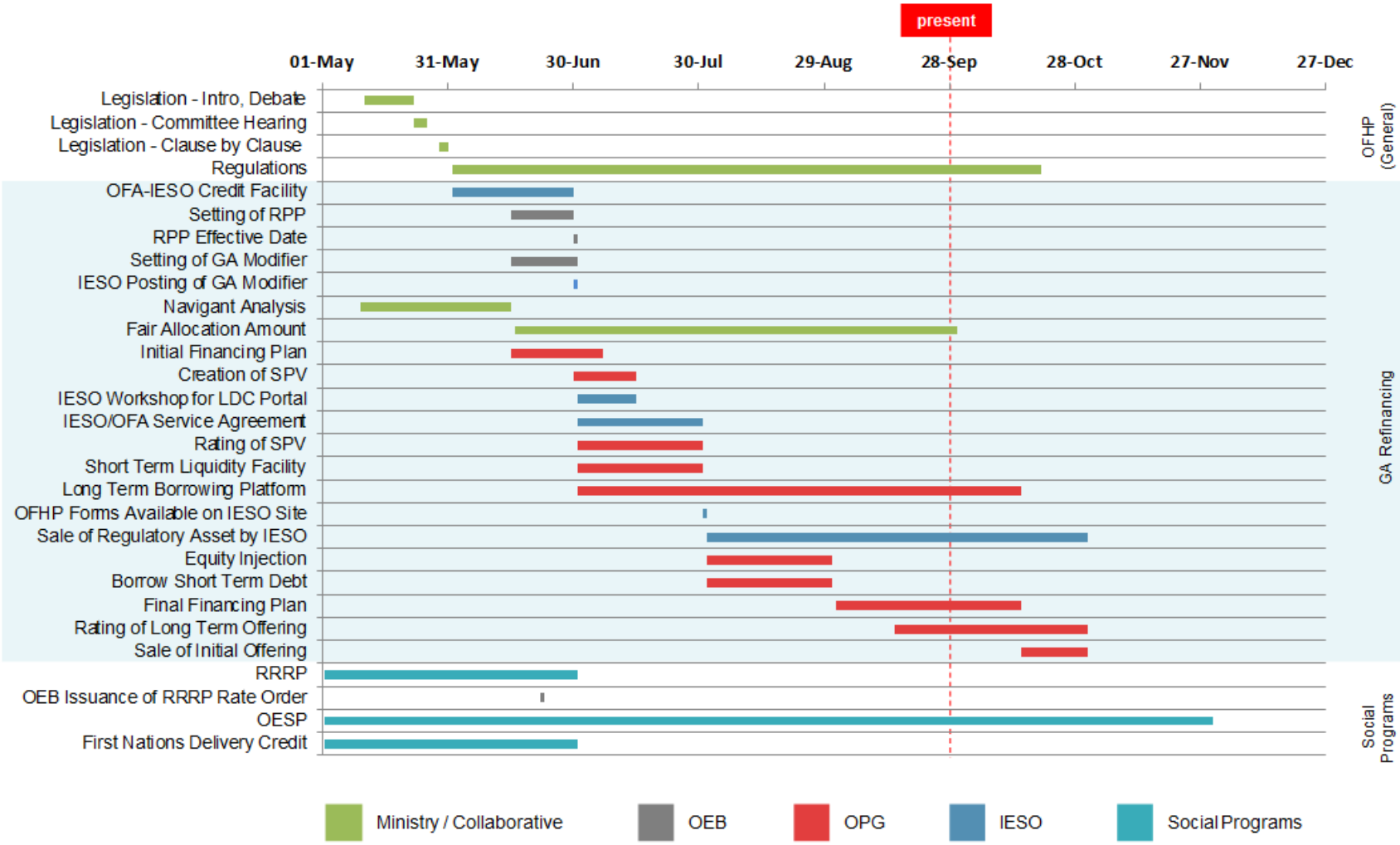
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation Group(4).pdf

From:	Cox, Hilary (ENERGY)
To:	Lightbody, Ava (ENERGY); O"Riordan, Eamon (ENERGY); Ho, Larissa (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:27:50 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

SNAP edits.

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 3:24 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Minor edits.

From: Cox, Hilary (ENERGY)
Sent: October 11, 2017 2:47 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

Hi All –
Apologies, but is there any chance I can get these earlier? Like, any time now?

HC

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –
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HC

2017-09-27 Consolidated - OFHP Matrix - Week _7.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
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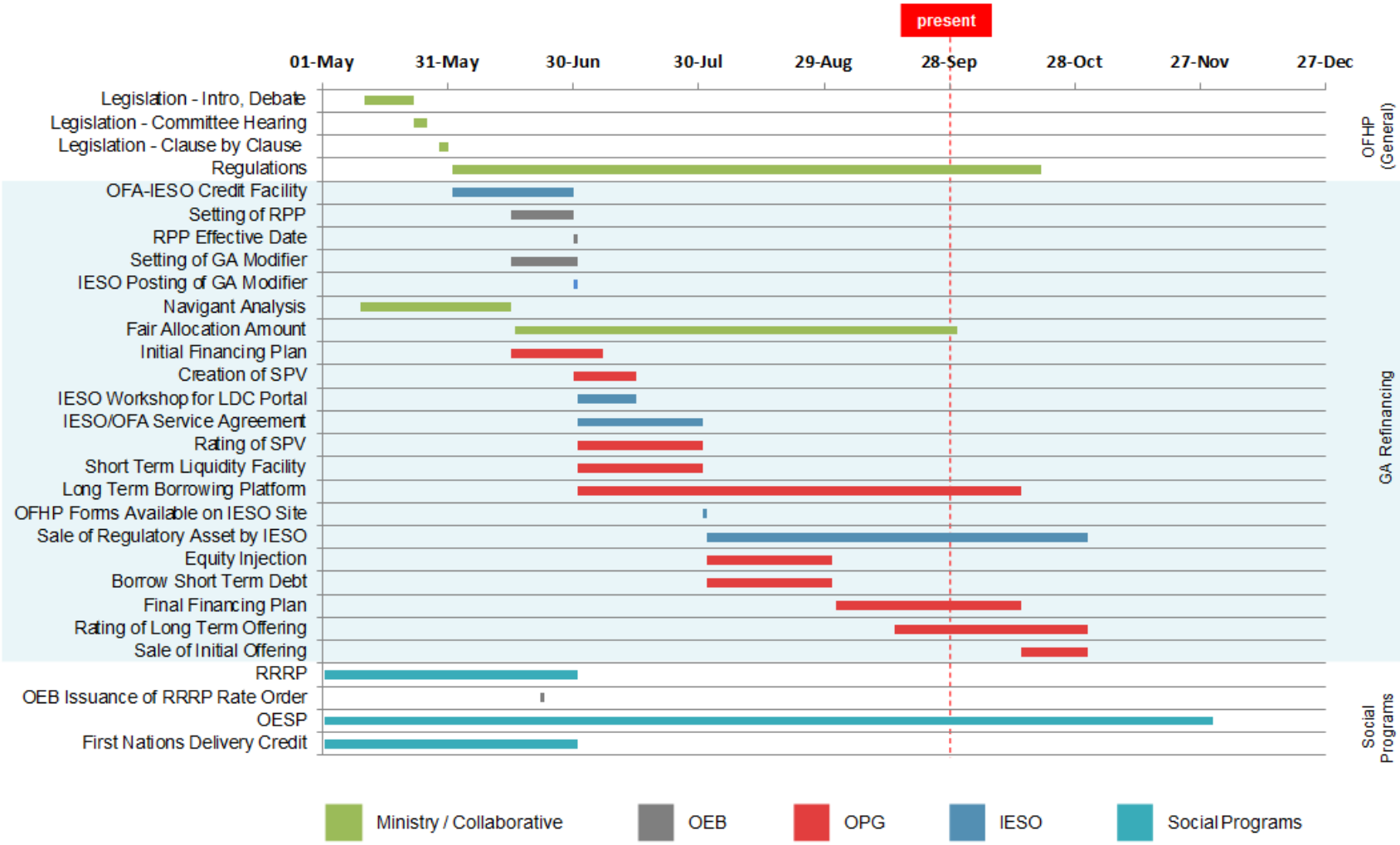
Ontario Fair Hydro Plan Implementation



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FW_ Rate Mitigation Implementation Group(5).pdf

From:	Cox, Hilary (ENERGY)
To:	Lightbody, Ava (ENERGY); O"Riordan, Eamon (ENERGY); Ho, Larissa (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:27:50 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

SNAP edits.

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 3:24 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Minor edits.

From: Cox, Hilary (ENERGY)
Sent: October 11, 2017 2:47 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

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HC

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To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

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HC

2017-09-27 Consolidated - OFHP Matrix - Week _8.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

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• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
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Item	Key Deliverables / Considerations	Timing / Next Steps
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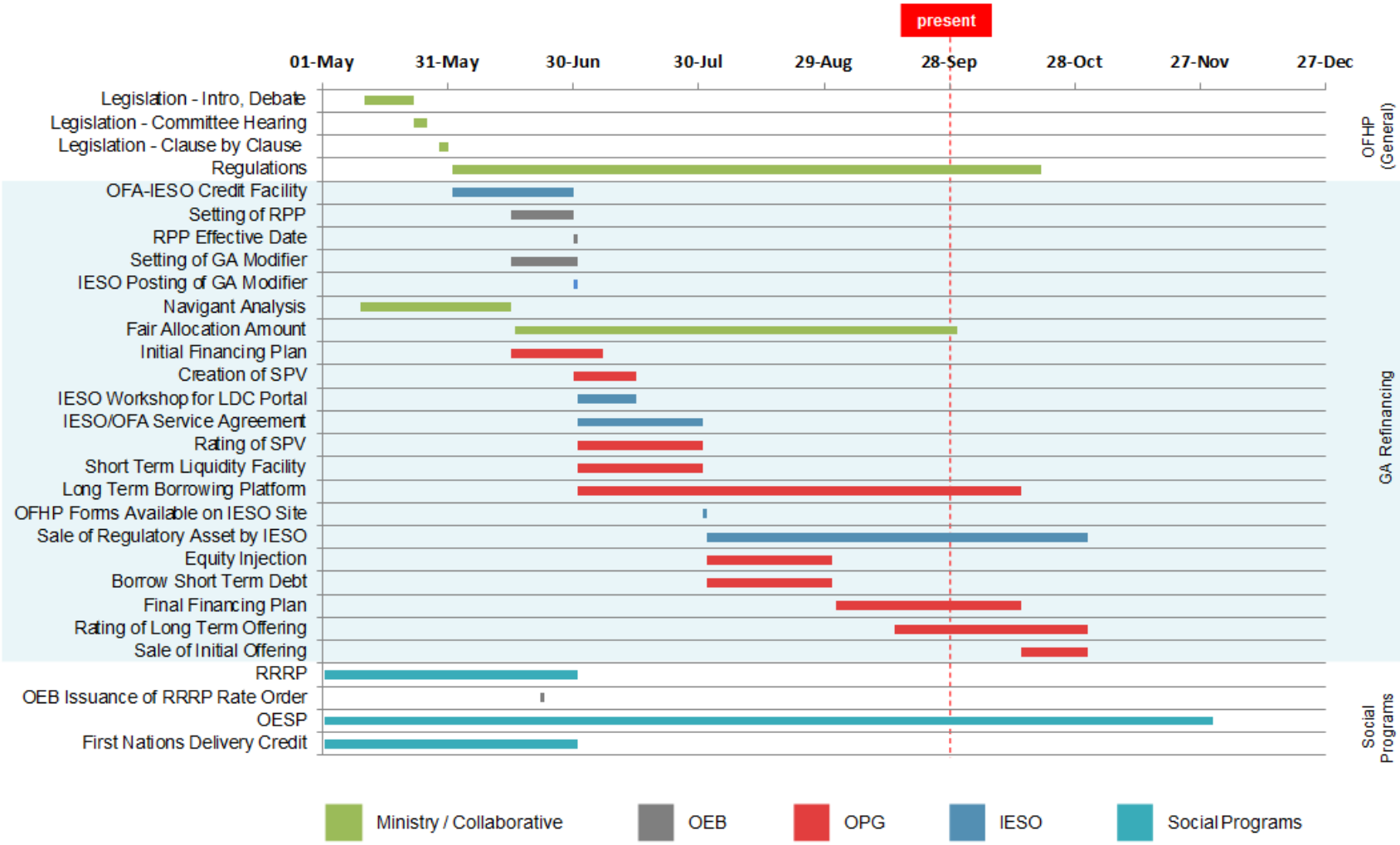
Ontario Fair Hydro Plan Implementation



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FW_ Rate Mitigation Implementation Group(6).pdf

From:	Cox, Hilary (ENERGY)
To:	Montgomery, Kaitlin (MOF); Katona, Keley (MOF)
Subject:	FW: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:53:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

Anything from IGS?

HC

From: Thouin, Alena (ENERGY)
Sent: October 11, 2017 3:33 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

I don't have anything to add.

Thanks

From: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Date: Wednesday, Oct 11, 2017, 3:26 PM
To: Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>, Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>, Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>, Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>, Katona, Keley (MOF) <Keley.Katona@ontario.ca>, Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Edits attached.

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 3:24 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
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To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
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HC

2017-09-27 Consolidated - OFHP Matrix - Week _9.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

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Item	Key Deliverables / Considerations	Timing / Next Steps
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Item	Key Deliverables / Considerations	Timing / Next Steps
	application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
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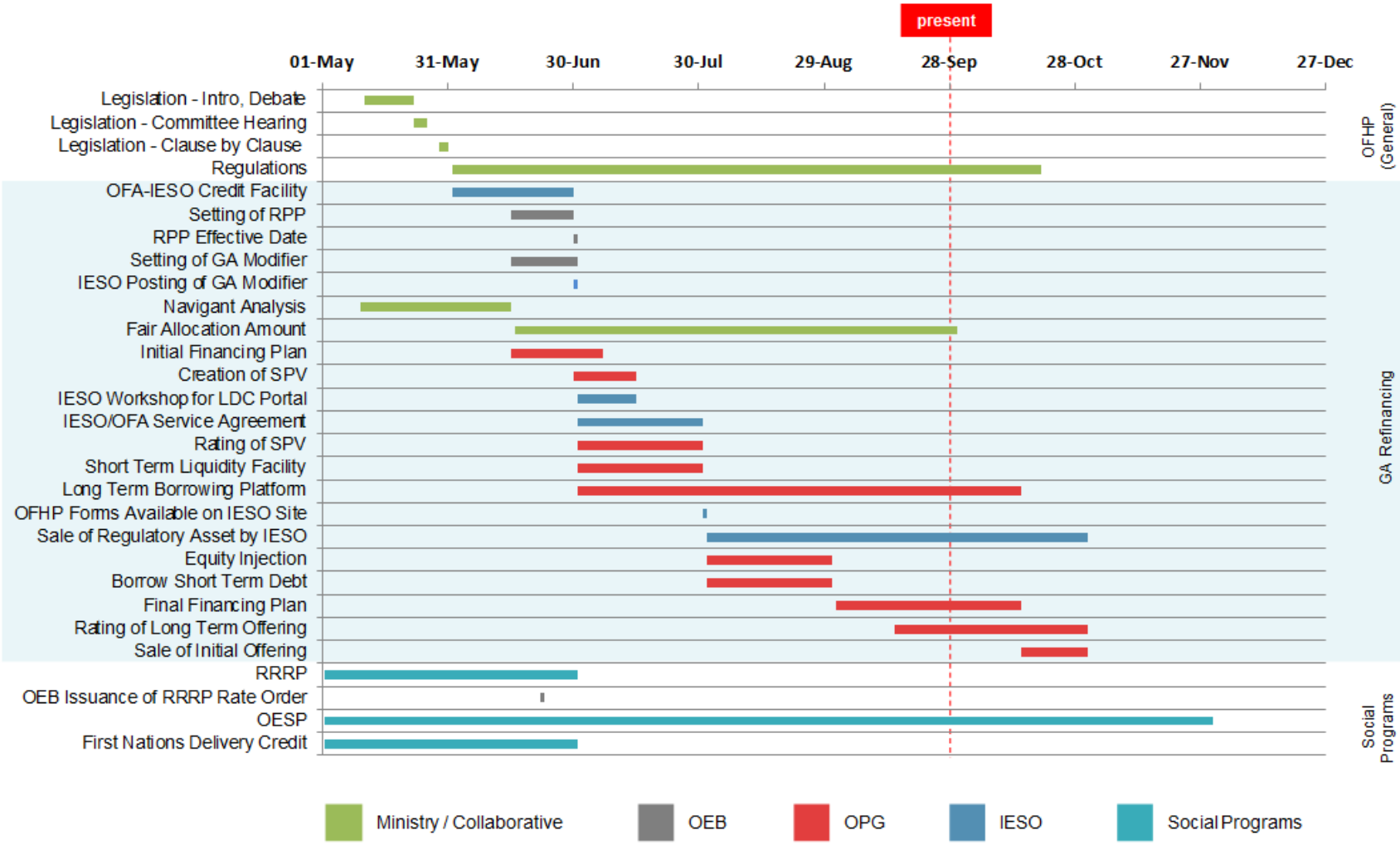
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa ~~Carleton UW~~ / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative ~~offering back office~~ support, including ~~and helping~~ coordinating ~~e~~ stakeholder engagement and developing program principles and details ~~on program design~~ for review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister ~~Target for program launch~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending ~~proposing to amend~~ the TPA

Item	Key Deliverables / Considerations	Timing / Next Steps
	August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees ~~continue to~~ worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • ~~Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund~~Hydro One convened meetings with a number of LDCs in late September to review program design details. • Most recent Board meeting took place on October 5, 2017.	with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

FW_ Rate Mitigation Implementation Group.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject:	FW: Rate Mitigation Implementation Group
Date:	October 10, 2017 6:15:00 PM
Attachments:	Action Items_ Sept 28_v2.docx 2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hi All –

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

Action Items_ Sept 28_v2_2.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
        - Fees and interest payments during the moratorium period regulations are underdevelopment. OPG advise that these are required when going back to rating agencies. Regulations are tracking to LRC on October 16
        - As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc). To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

    - Business Item (OPG/IGS)
        - Items are tracking towards completition in Fall.

    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

    - Fees, Interest Payments and FAA Letter (ENERGY)
        - Fees and interest payment regulations are under development and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts will also be circulated to TBS/OPCD

2) Estimates
    - Ministry prepping for questions related to OFHP
    - IESO and OPG representative to attend to answer specifc questions

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

2017-09-27 Consolidated - OFHP Matrix - Week _10.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

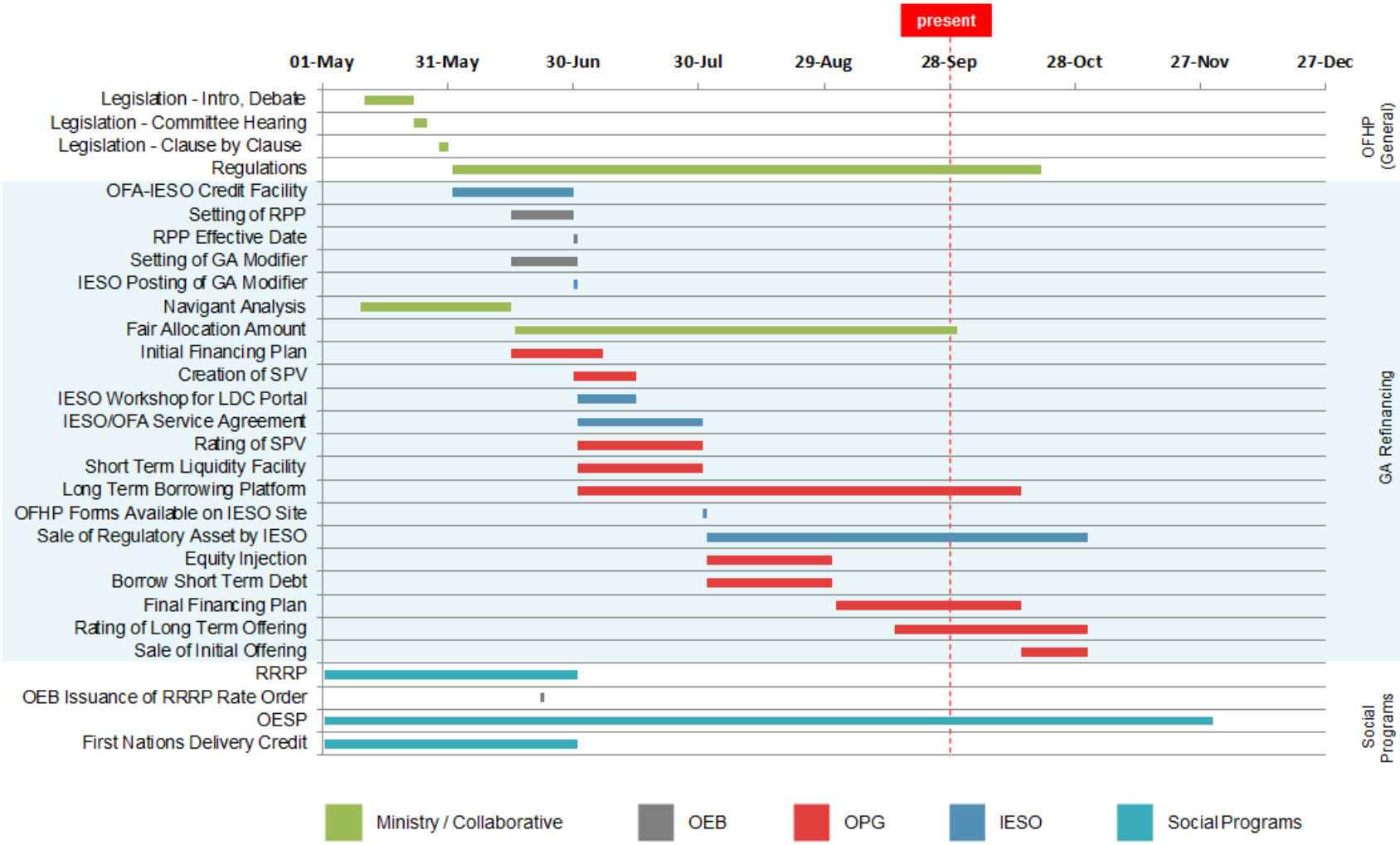
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017 Outstanding Business Issues - Week of S_2.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

FW_ Rate Mitigation Implementation Meeting - No....pdf

From: Cox, Hilary (ENERGY)
To: Ridd, Carl (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting - November 1, 2017
Date: October 31, 2017 4:00:00 PM
Attachments: 2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX
2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx
Agenda_Weekly Rate Mitig Implmentation Group_ Oct 31.docx

Here you go.

From: Schlaepfer, Martin (ENERGY)
Sent: October 31, 2017 3:52 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)' <jeffrey.lyash@opg.com>; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)' <ken.hartwick@opg.com>; 'Kim Marshall (Kim.Marshall@ieso.ca)' <Kim.Marshall@ieso.ca>; Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; 'CROZZOLI Carlo -CBUSDEV&STRT' <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; 'LEE John -TREASURY' <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>
Cc: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>; Baker, Carys (ENERGY) <Carys.Baker@ontario.ca>; MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Foster, Robert (CAB) <Robert.Foster@ontario.ca>; 'jordan.penic@ieso.ca' <jordan.penic@ieso.ca>; 'Turnevicius, Lorraine' <lorraine.turnevicius@ieso.ca>; 'catriona.king@opg.com' <catriona.king@opg.com>; Bungaro-Yemec, Francesca (ENERGY) <Francesca.Bungaro-Yemec@ontario.ca>; Feather, Adam (ENERGY) <SOM.Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; David Barrett <david.barrett@ieso.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>
Subject: Rate Mitigation Implementation Meeting - November 1, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

2017 Outstanding Business Issues - Week of O_6.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

2017-10-27 OFHP Matrix - Week of Oct 31_Clean_2.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 30, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

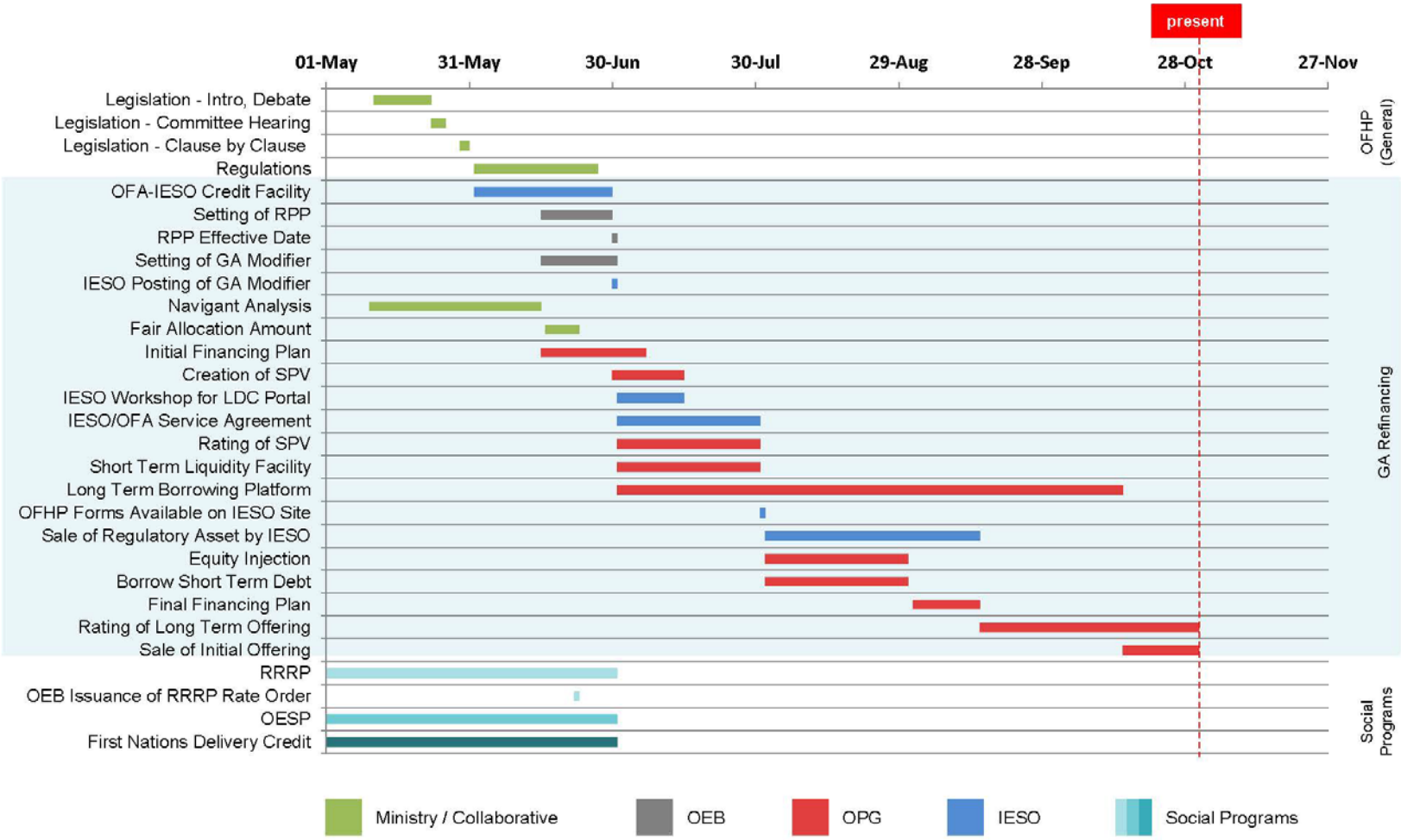
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Agenda_Weekly Rate Mitig Implmentation Group_.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
November 1, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Protection and Assurances Agreement (OFA / OPG)
    - Commercial Agreement (OPG/ IESO)
    - OPG's Financing Plan (OPG)
    - Regulatory Amendments (ENERGY)

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

FW_ Rate Mitigation Implementation Meeting - Se....pdf

From:	Kim Marshall
To:	Anthony Martinello; Michael Boll
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting - September 14, 2017
Date:	September 14, 2017 7:37:26 AM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Martin, Antony and Michael will represent the IESO this morning.

Kimberly Marshall | VP, Corporate Services & CFO
Independent Electricity System Operator (IESO) | T: (416) 969-6232 | C: (416) 545-7202
120 Adelaide Street West, Suite 1600, Toronto, ON M5H 1T1
Web: www.ieso.ca | Twitter: IESO_Tweets | LinkedIn: IESO

Corporate Services collaborates with you to deliver solutions and expertise that enable the IESO to achieve its goals.

Conservation: www.saveONenergy.ca | Twitter: saveONenergyOnt | LinkedIn: saveONenergy

-----Original Message-----
From: Schlaepfer, Martin (ENERGY) [mailto:Martin.Schlaepfer@ontario.ca]
Sent: September 14, 2017 5:47 AM
To: Hume, Steen (ENERGY); Christie, Tim (ENERGY); Nalasco, Adrian (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Nelms, Scott (MOF); "jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; Kim Marshall; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John -TREASURY'; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); Jordan Penic; Lorraine Turnevicius; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF)
Subject: Rate Mitigation Implementation Meeting - September 14, 2017

Hi everyone,

Please find attached the material for discussion this morning.

Thanks,
Martin

This e-mail message and any files transmitted with it are intended only for the named recipient(s) above and may contain information that is privileged, confidential and/or exempt from disclosure under applicable law. If you are not the intended recipient(s), any dissemination, distribution or copying of this e-mail message or any files transmitted with it is strictly prohibited. If you have received this message in error, or are not the named recipient(s), please notify the sender immediately and delete this e-mail message.

Agenda_Weekly Rate Mitig Implmentation Group__1.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)
    - FAA (ENERGY/OPG)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-08 Consolidated - OFHP Matrix - Week _1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

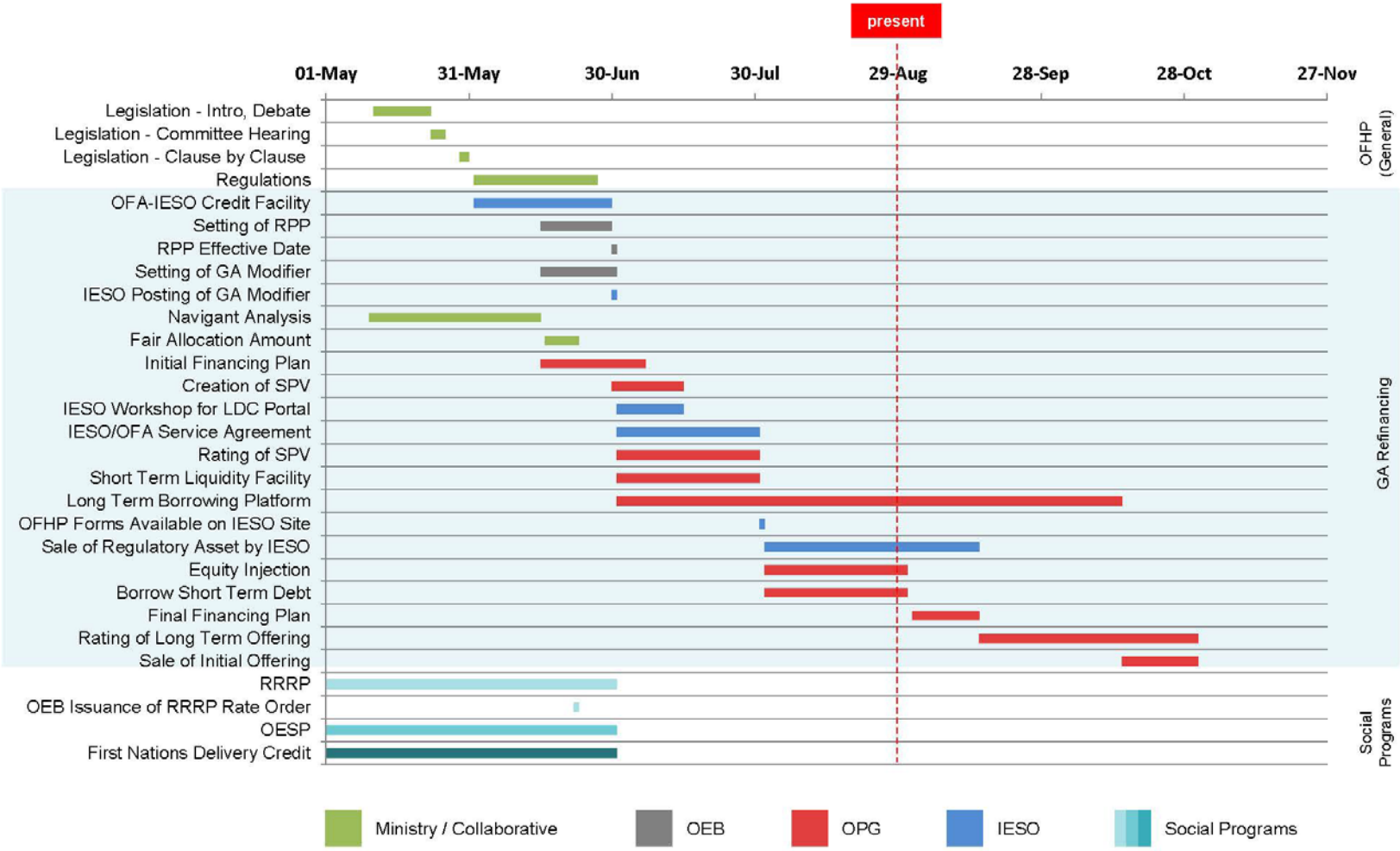
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_3.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

FW_ Rate Mitigation Implementation Meeting Mate...(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 15, 2017 3:17:00 PM
Attachments:	Action Items_Sept 14_v2.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi Martin,

Quick question – would just like to confirm that the OFHP matrix and business issues list need to be updated again by EOD?

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: September 13, 2017 2:53 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Cc: Lightbody, Ava (ENERGY) <Ava.Lightbody@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
I'll be off tomorrow and Friday so am hoping that after tomorrow's rate mitigation implementation group, you can all update the attached products with action items and return to Ava by EOD Friday. She'll send up to Martin in DMO.

HC

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,

Hillary

Action Items_Sept 14_v2.pdf

Action Items – September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG Board meeting set up for Sept 27 to seek approval of the structure (materials typically go to the Board a week in advance). OPG will require finals or advanced drafts of the support agreement, FAA model, and fees regulation
        - OPG and IESO continue to work on LOC to protect against LDC defaults, or an alternative of a guarantee, to land for next week
            - A LOC could require a change to the general regulation (could track to Oct 16 LRC)
            - IESO/ENERGY Legal continue discussions on the LOC to flesh out any required regulatory changes
    - Supporting Agreement (OFA/OPG)
        - OPG has indicated that EY doesn't believe the agreement, as currently drafted, will pass the consolidation test.
        - OFA/ENERGY to work with OPG to determine what can be done to address this concern
        - TB/MBC will likely move to Monday Sept 25
    - Business Item (OPG/IGS)
        - Moratorium period will last for until 2022. After that, both interest and principal will flow through CEAs.
        - Treatment of interest during first four years is still not resolved. ENERGY to work with IESO to investigate alternatives to GA.
    - Fees (ENERGY)
        - ENERGY legal is working through latest proposal from OPG and a draft that will not substantially change is needed for Board meeting. Proposal has been shared with OEB but has not yet been formally drafted by legislative counsel.
    - FAA (ENERGY/OPG)
        - Energy and OPG to meet in the next few days to finalize the FAA model with an aim to get the Minister's signature on the FAA letter next Thursday

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - No updates
    - Affordability Fund (CRED)
        - Trustees are currently meeting on a weekly basis and working towards a soft launch in early October

2017-09-08 Consolidated - OFHP Matrix - Week _2.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

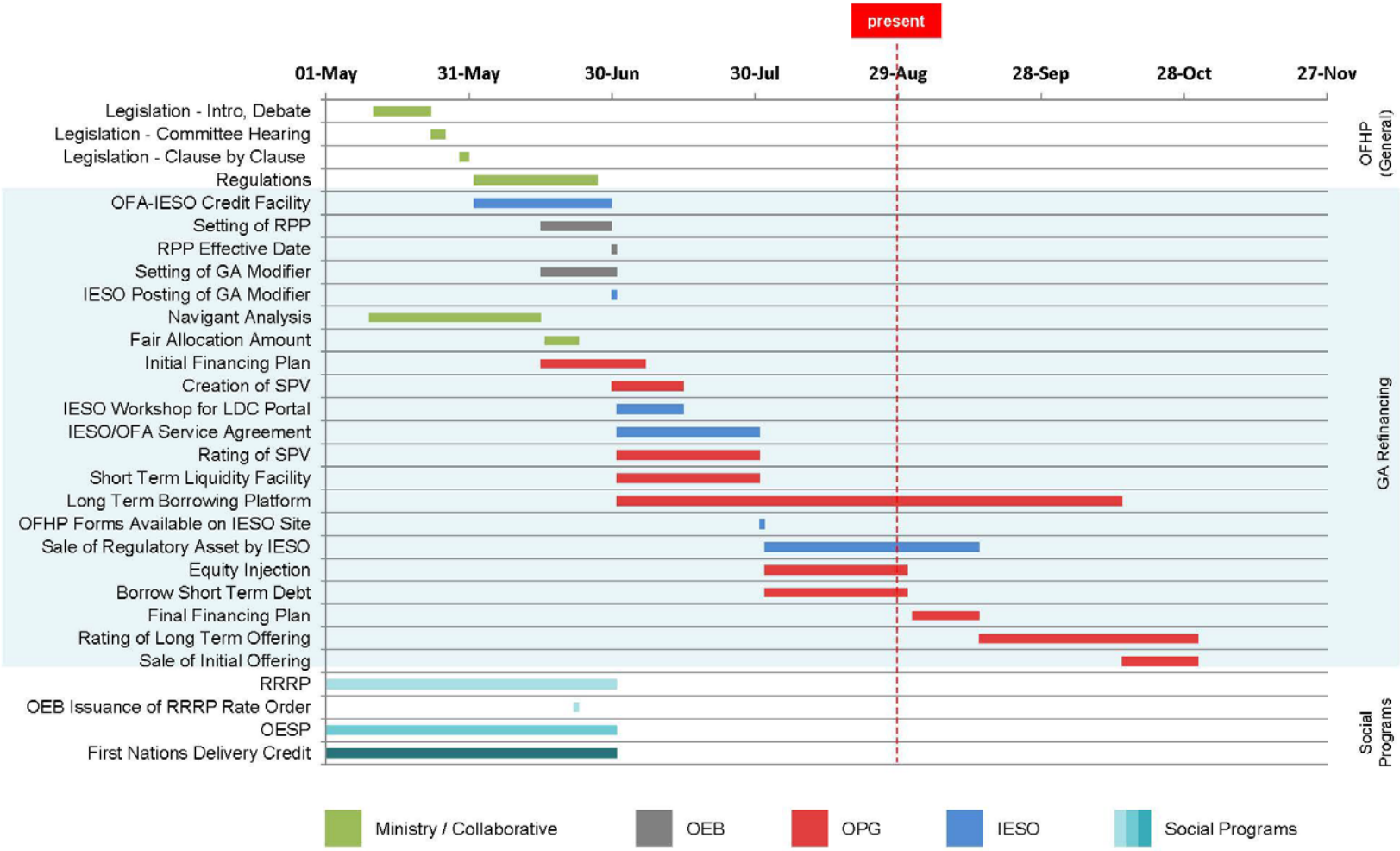
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_4.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

FW_ Rate Mitigation Implementation Meeting Mate...(10).pdf

From:	Cayley, Daniel (ENERGY)
To:	O"Riordan, Eamon (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 10:35:00 AM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11 - DAP.DOCX

From: Feather, Adam (ENERGY)
Sent: September 27, 2017 10:23 AM
To: Cox, Hilary (ENERGY)
Cc: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: RE: Rate Mitigation Implementation Meeting Materials

SNAP ADM approved edits attached.

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-08 Consolidated - OFHP Matrix - Week _3.pdf

!

Implementation of Ontario's Fair Hydro Plan

Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid~~ Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projections for PRRT

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Item	Key Deliverables / Considerations	Timing / Next Steps
		submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs. • OEB and MCSS ~~executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP~~completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and • ~~Targeted outreach and automatic SA client enrolment by MCSS to start late September;~~ MCSS to continue developing software solution for automation over next several months. • ~~Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution~~CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance. • ~~SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base~~Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments. • Ministry and OEB have initiated work to transfer OESP to government.	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • ~~Ministry working on post card for FNDC~~FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projection for PRRT. • Hydro One to provide update on program enrollment week of October 2nd.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

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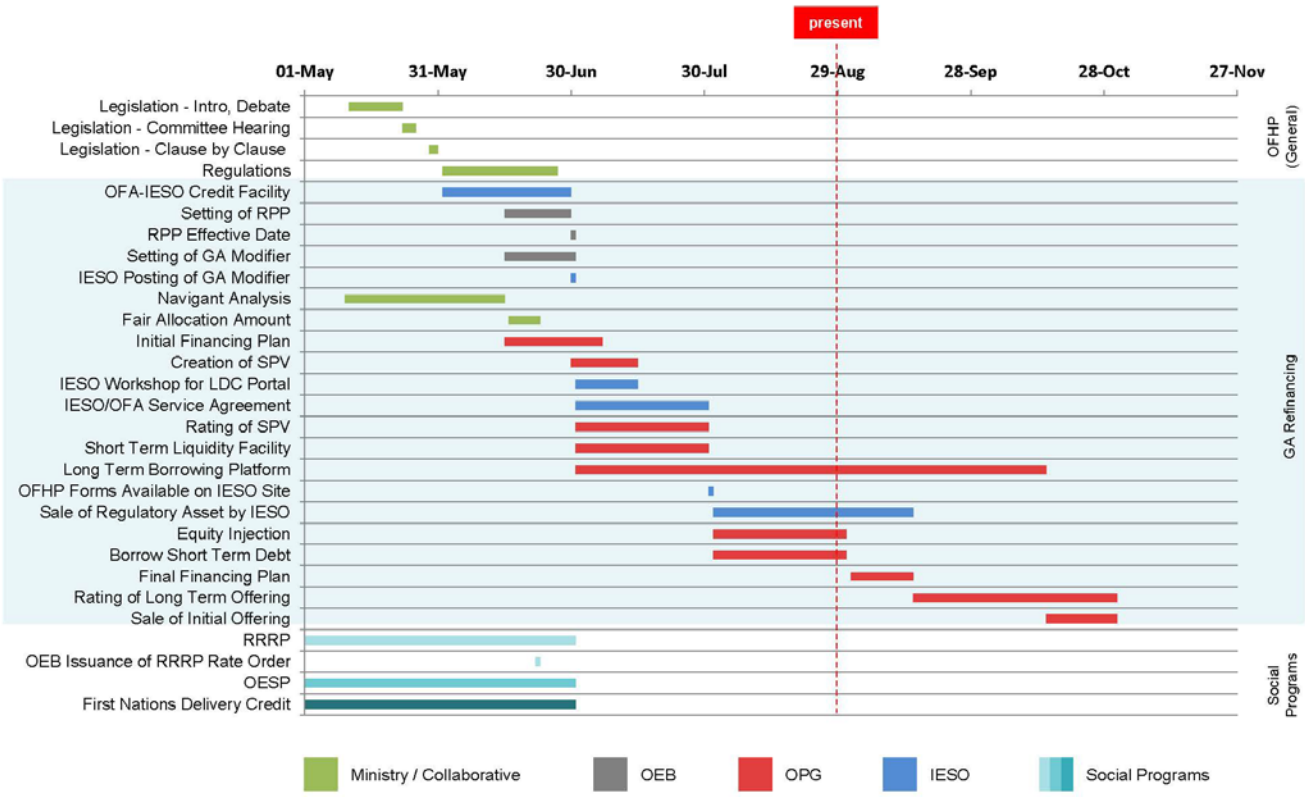
Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• ~~Fall 2017~~2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Commented [SB(1]: OESP implementation should be extended to end of November. It had multiple milestones to date (2 reg changes, 1 leg change, MCSS alignment, 50% + expansion) and has more to come (shift to tax base, government administration, further MCSS automation of OESP).

FW_ Rate Mitigation Implementation Meeting Mate...(11).pdf

From:	Syed, Usman (ENERGY)
To:	Edwards, Matthew (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 2:20:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 11 CEEB v4.docx

Here you go…

From: Schwab-Pflug, Emma (ENERGY)
Sent: September 27, 2017 1:54 PM
To: Syed, Usman (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Usman, see revised attached included A-Fund logo – have written "ENERGY is proposing…" in case DM is not yet briefed on this. Thanks, Emma

From: Syed, Usman (ENERGY)
Sent: September-27-17 10:06 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Thanks, I think we should add that we are planning to amend the TPA to ensure use of Ontario logo so that DM is aware that we will be looking for his signature soon…

- Usman

From: Schwab-Pflug, Emma (ENERGY)
Sent: September 27, 2017 9:54 AM
To: Syed, Usman (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Usman, please see attached and below. We considered adding use of the logo, but thought we would wait for the BN to go up first. Can add if preferred. Thanks, Emma

From: Qureshi, Musab (ENERGY)
Sent: September-27-17 9:50 AM
To: Schwab-Pflug, Emma (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Emma,

See attached for Afund updates to the OFHP matrix. Nothing for us in the Outstanding Business Issues note

Musab

From: Schwab-Pflug, Emma (ENERGY)
Sent: September-26-17 5:34 PM
To: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Musab, could you take a quick look tomorrow morning for any updates? I don't think we need to mention use of the logo yet, we'll send up the BN on this first.

Thanks,
Emma

From: Edwards, Matthew (ENERGY)
Sent: September-26-17 3:52 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Do we have any updates to the A-Fund content?

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-27 Consolidated - OFHP Matrix - Week _11.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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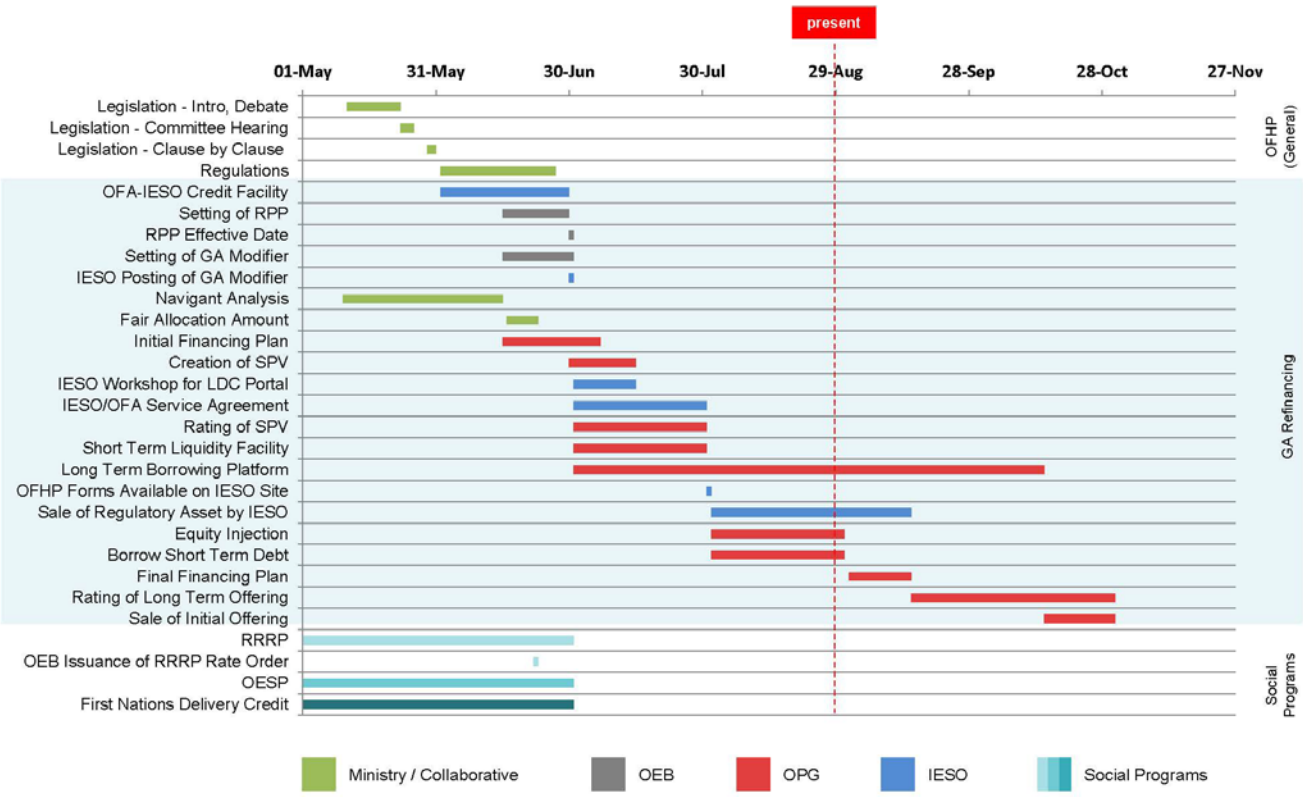
Item	Key Deliverables / Considerations	Timing / Next Steps
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of	**~~September~~ October 2017:** Target for program launch **~~Q2 2017-2018~~Fall 2017:** • The Trustees are considering submitting a proposal to

Item	Key Deliverables / Considerations	Timing / Next Steps
	Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated. • ~~Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants)~~ • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program ~~as soon as possible~~in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • ~~Trustees have agreed to Hydro One's role as administrator~~ • ~~Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)~~ • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund. • ~~Trustees to brief Ministry on August 28~~	MCSS for the use of Ontario 211 services for the Affordability Fund. • ENERGY is proposing to amend TPA with the Affordability Fund Trust~~ees~~ to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year ~~2018-19~~ ~~PRRT~~ TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records	• Summer – Responding to AG Request (Ongoing)

Item	Key Deliverables / Considerations	Timing / Next Steps
	• TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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FW_ Rate Mitigation Implementation Meeting Mate...(2).pdf

From: Cox, Hilary (ENERGY)
To: Nalasco, Adrian (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials
Date: September 15, 2017 3:51:00 PM
Attachments: 2017 Outstanding Business Issues - Week of Sept 11.docx
2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx
Action Items_Sept 14_v2.docx

Hi Adrian,

Edits from Tim and Keley to the OFHP Matrix and Business issues, in accordance with action items that came out of yesterday's meeting. The action items are attached for reference as well.

Thanks,
Ava

From: Katona, Keley (MOF)
Sent: September 15, 2017 3:48 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>
Cc: DeSouza, Avril (ENERGY) <Avril.DeSouza@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Edits from me.

From: Christie, Tim (ENERGY)
Sent: September 15, 2017 3:36 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Cc: DeSouza, Avril (ENERGY) <Avril.DeSouza@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Here are my edits to the matrix. Nothing to add to the business issues list.

From: Cox, Hilary (ENERGY)
Sent: September-15-17 3:15 PM
To: Christie, Tim (ENERGY); Ho, Larissa (ENERGY); Montgomery, Kaitlin (MOF)
Cc: DeSouza, Avril (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hi All,

Quick reminder that these products should be updated by EOD according to action items from yesterday's meeting. The action items sent around by Martin are attached as well for reference.

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: September 13, 2017 2:53 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Cc: Lightbody, Ava (ENERGY) <Ava.Lightbody@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
I'll be off tomorrow and Friday so am hoping that after tomorrow's rate mitigation implementation group, you can all update the attached products with action items and return to Ava by EOD Friday. She'll send up to Martin in DMO.

HC

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017 Outstanding Business Issues - Week of S_5.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• ENERGY / MOF / OPG working on Master Subscription Agreement • OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with OPG for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

2017-09-08 Consolidated - OFHP Matrix - Week _4.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel.	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection

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Item	Key Deliverables / Considerations	Timing / Next Steps
	o Interest/Fees Collection During the Inflationary Cap Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. ~~o (OPG, IESO and Energy to work through approach)~~ ~~o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG ~~– IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required ~~• ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ o	• Late November 2017 – OPG Financing (TBD)
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Item	Key Deliverables / Considerations	Timing / Next Steps
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• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
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• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre /	**September 2017:** Target for program launch **Q2 2017-2018:**

Item	Key Deliverables / Considerations	Timing / Next Steps
	Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	• Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
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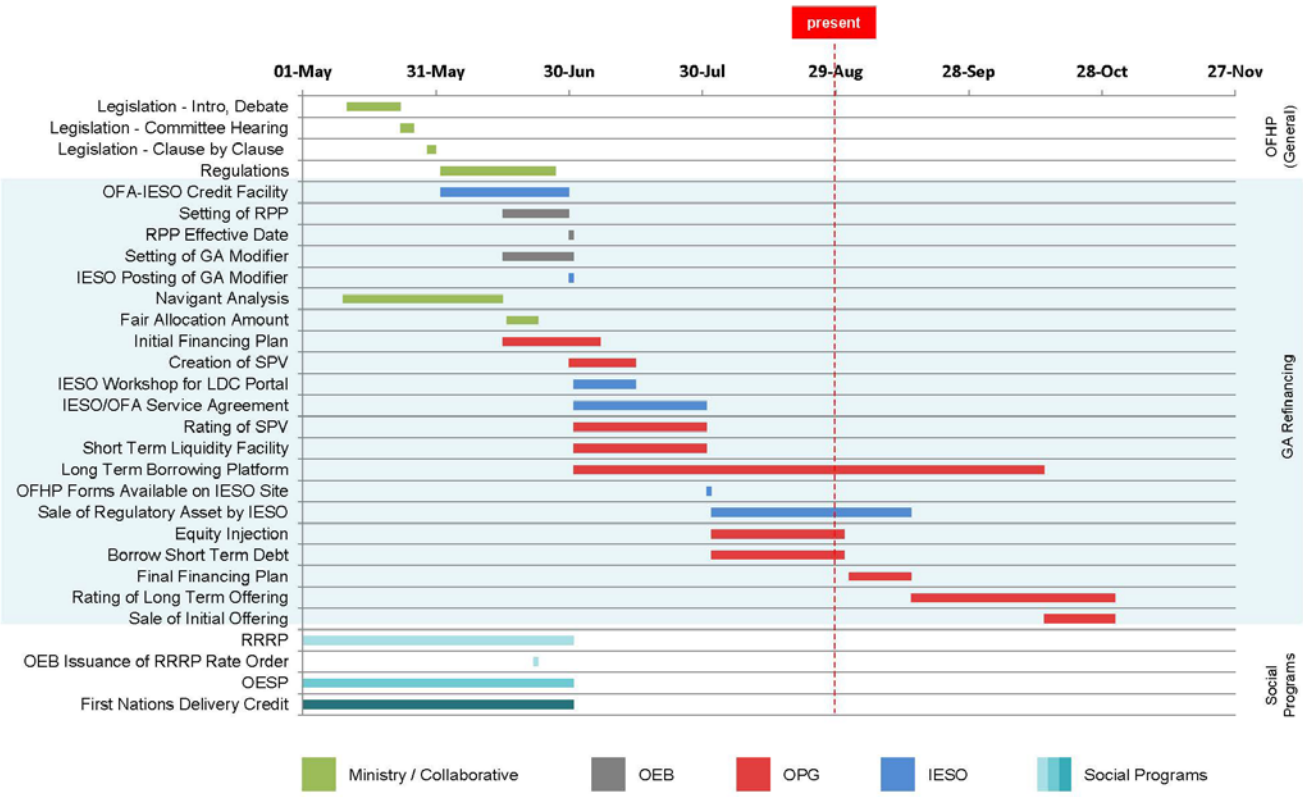
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Action Items_Sept 14_v2_1.pdf

Action Items – September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG Board meeting set up for Sept 27 to seek approval of the structure (materials typically go to the Board a week in advance). OPG will require finals or advanced drafts of the support agreement, FAA model, and fees regulation
        - OPG and IESO continue to work on LOC to protect against LDC defaults, or an alternative of a guarantee, to land for next week
            - A LOC could require a change to the general regulation (could track to Oct 16 LRC)
            - IESO/ENERGY Legal continue discussions on the LOC to flesh out any required regulatory changes
    - Supporting Agreement (OFA/OPG)
        - OPG has indicated that EY doesn't believe the agreement, as currently drafted, will pass the consolidation test.
        - OFA/ENERGY to work with OPG to determine what can be done to address this concern
        - TB/MBC will likely move to Monday Sept 25
    - Business Item (OPG/IGS)
        - Moratorium period will last for until 2022. After that, both interest and principal will flow through CEAs.
        - Treatment of interest during first four years is still not resolved. ENERGY to work with IESO to investigate alternatives to GA.
    - Fees (ENERGY)
        - ENERGY legal is working through latest proposal from OPG and a draft that will not substantially change is needed for Board meeting. Proposal has been shared with OEB but has not yet been formally drafted by legislative counsel.
    - FAA (ENERGY/OPG)
        - Energy and OPG to meet in the next few days to finalize the FAA model with an aim to get the Minister's signature on the FAA letter next Thursday

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - No updates
    - Affordability Fund (CRED)
        - Trustees are currently meeting on a weekly basis and working towards a soft launch in early October

FW_ Rate Mitigation Implementation Meeting Mate...(3).pdf

From:	Cox, Hilary (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 15, 2017 3:59:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 11.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx Action Items_Sept 14_v2.docx

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Hi Martin,

You can disregard my previous message… Attached are the OFHP matrix and Business issues list, updated by ESP and Keley to reflect the action items from yesterday.

Thanks,
Ava

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017 Outstanding Business Issues - Week of S_6.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• ENERGY / MOF / OPG working on Master Subscription Agreement • OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with OPG for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

2017-09-08 Consolidated - OFHP Matrix - Week _5.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel.	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection

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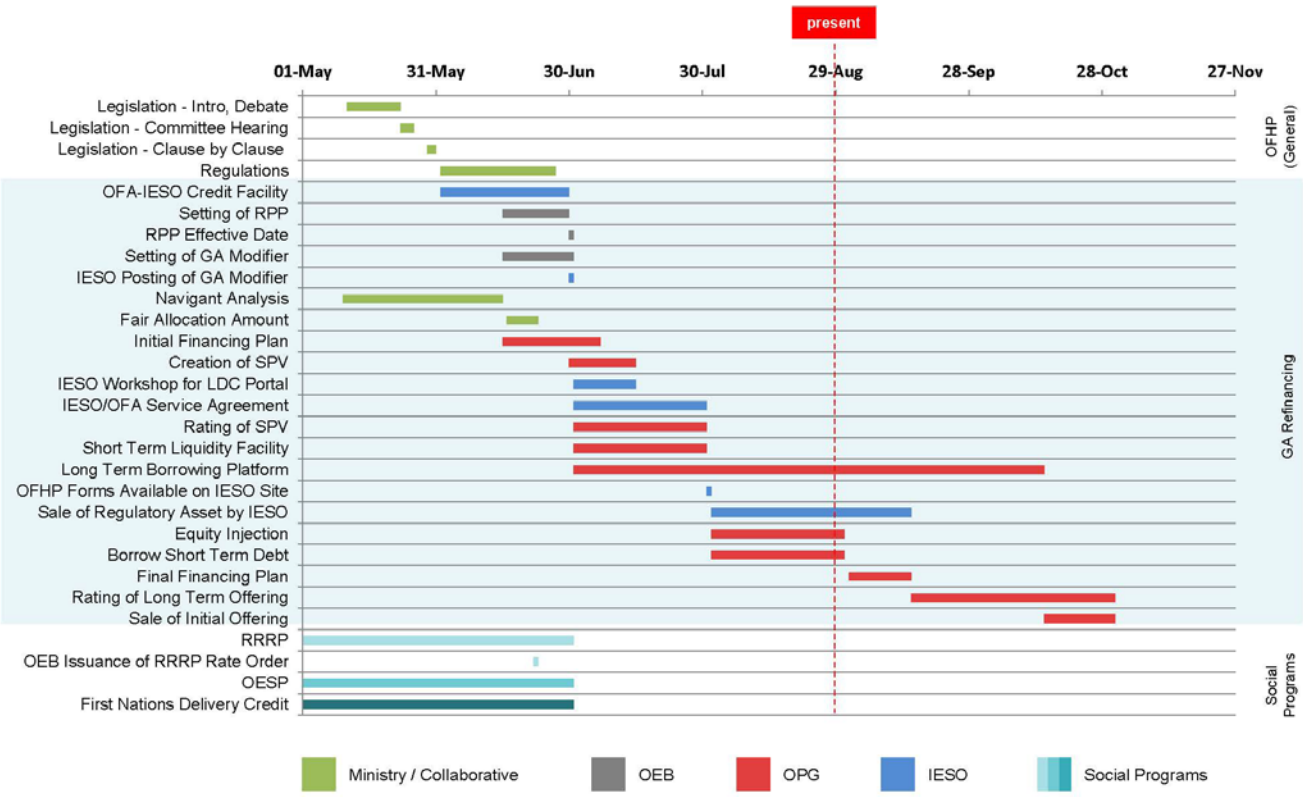
Ontario Fair Hydro Plan Implementation



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Action Items_Sept 14_v2_2.pdf

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FW_ Rate Mitigation Implementation Meeting Mate...(4).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 26, 2017 3:43:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 11.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

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Hi All –

Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017 Outstanding Business Issues - Week of S_7.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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2017-09-08 Consolidated - OFHP Matrix - Week _6.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	• Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
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Item	Key Deliverables / Considerations	Timing / Next Steps
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8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
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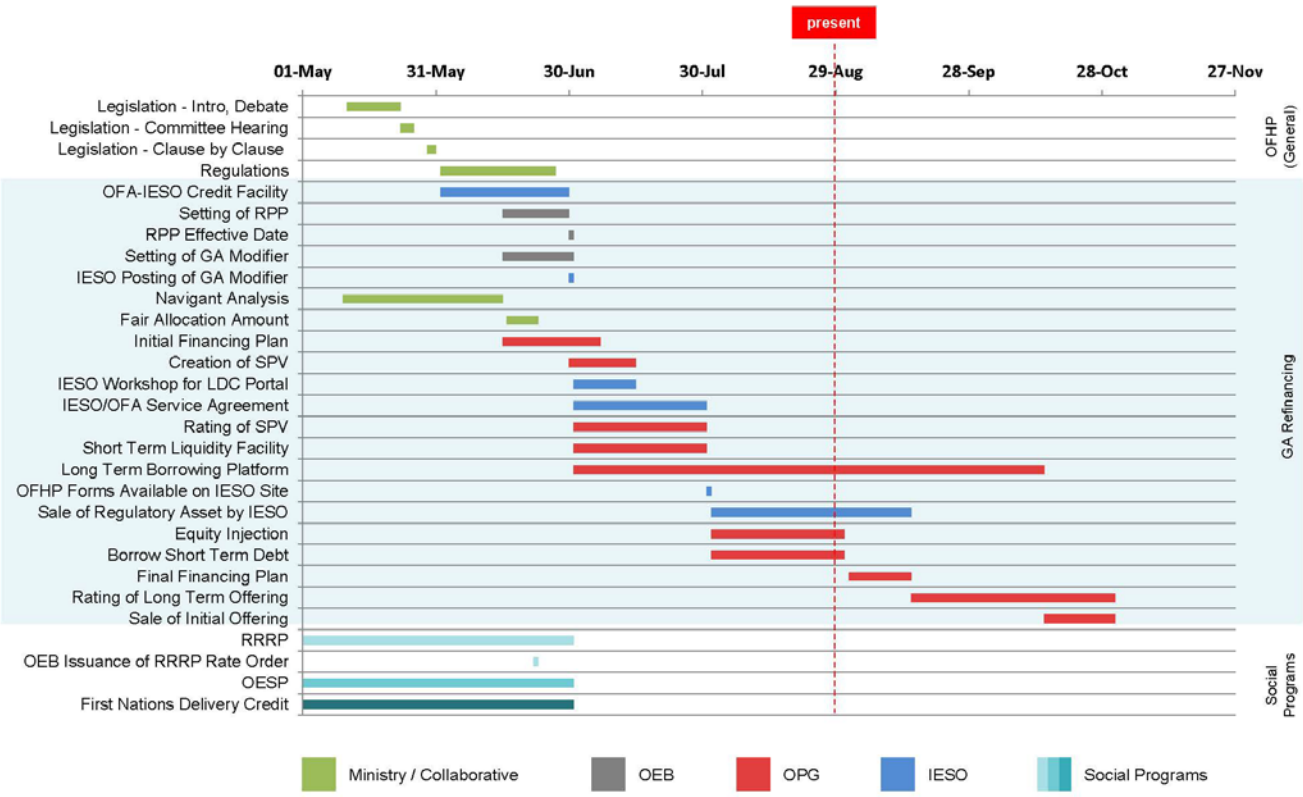
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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FW_ Rate Mitigation Implementation Meeting Mate...(5).pdf

From:	Edwards, Matthew (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 26, 2017 3:51:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 11.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

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Do we have any updates to the A-Fund content?

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017 Outstanding Business Issues - Week of S_8.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• ENERGY / MOF / OPG working on Master Subscription Agreement • OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with OPG for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

2017-09-08 Consolidated - OFHP Matrix - Week _7.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel.	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection

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Item	Key Deliverables / Considerations	Timing / Next Steps
	o Interest/Fees Collection During the Inflationary Cap Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. ~~o (OPG, IESO and Energy to work through approach)~~ ~~o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG ~~– IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required ~~• ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ o	• Late November 2017 – OPG Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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Item	Key Deliverables / Considerations	Timing / Next Steps
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre /	**September 2017:** Target for program launch **Q2 2017-2018:**

Item	Key Deliverables / Considerations	Timing / Next Steps
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6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
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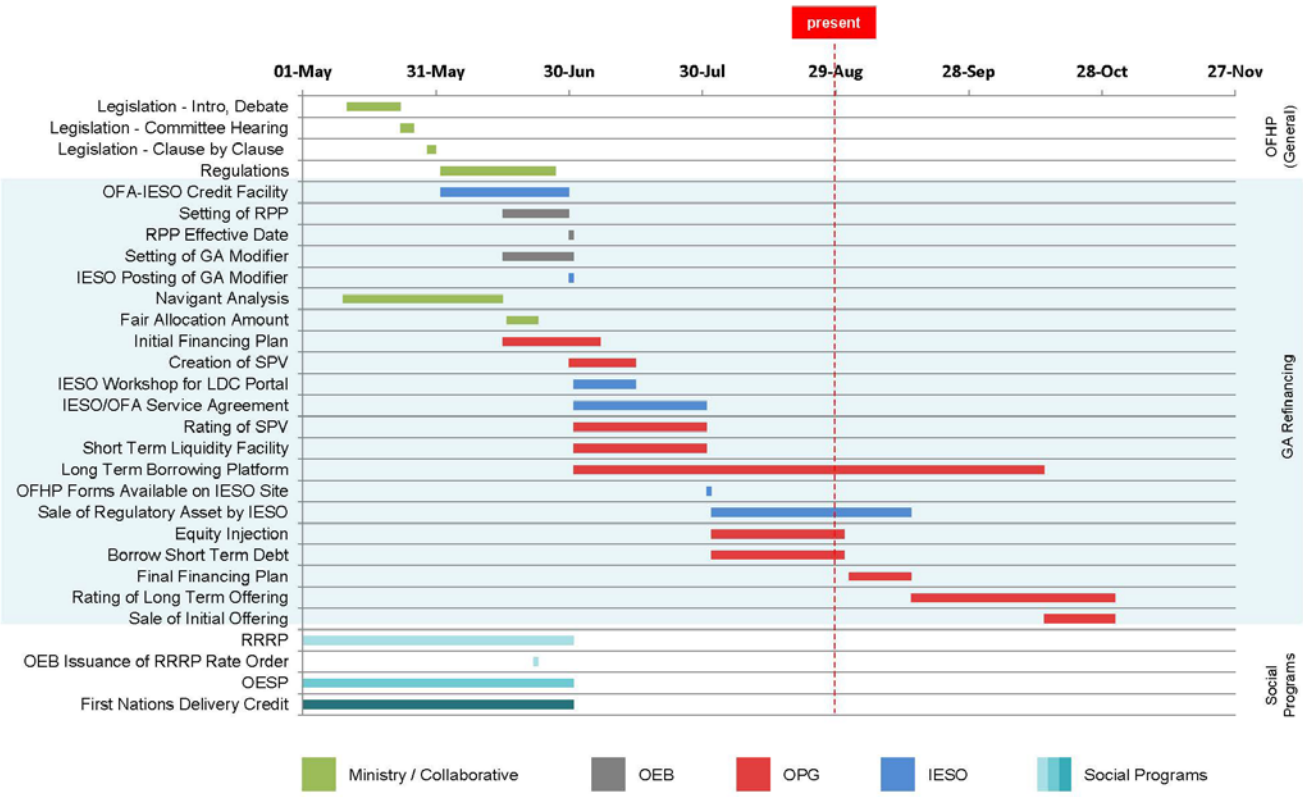
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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FW_ Rate Mitigation Implementation Meeting Mate...(6).pdf

From:	Cayley, Daniel (ENERGY)
To:	O"Riordan, Eamon (ENERGY)
Cc:	Lightbody, Ava (ENERGY); Bergman, Mark (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 26, 2017 4:01:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 11.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

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Eamon – please have a look and provide any necessary updates.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017 Outstanding Business Issues - Week of S_9.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
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2017-09-08 Consolidated - OFHP Matrix - Week _8.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
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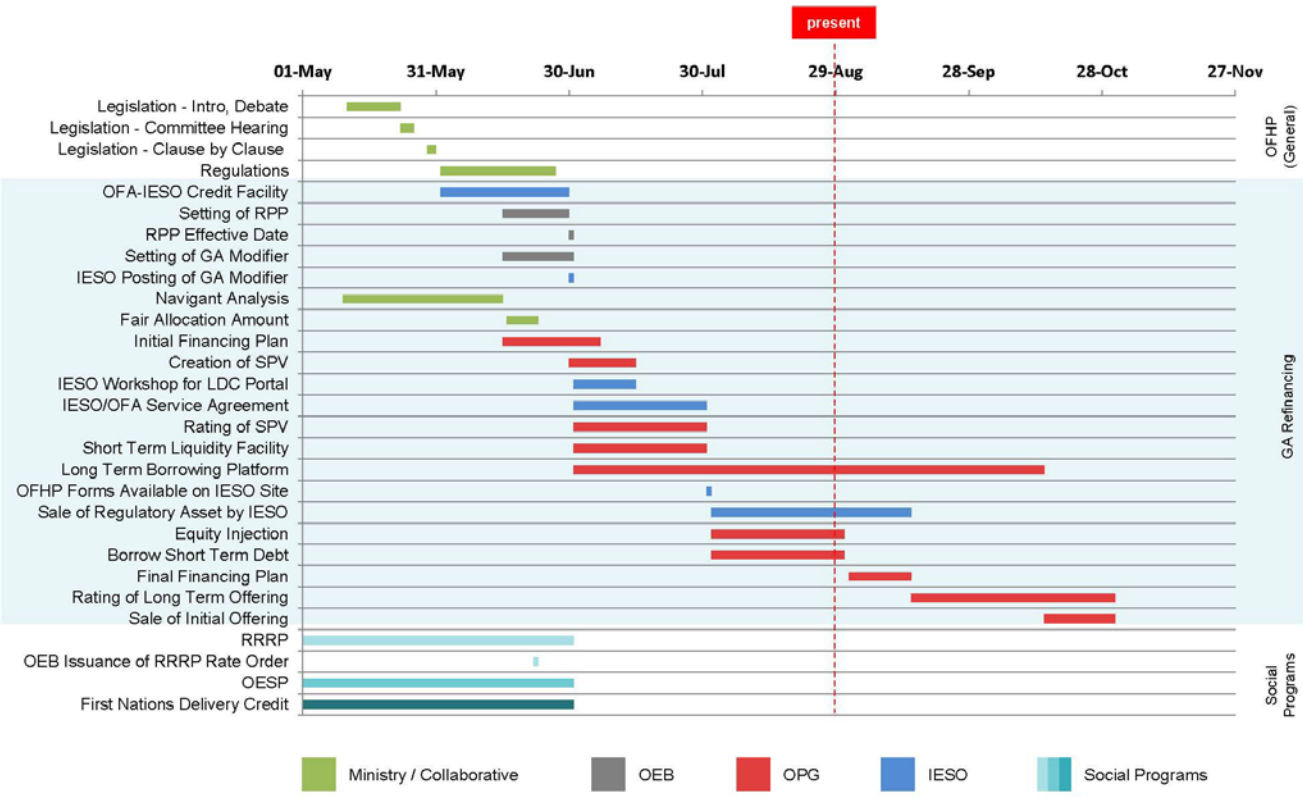
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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FW_ Rate Mitigation Implementation Meeting Mate...(7).pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 9:54:07 AM
Attachments:	2017 Outstanding Business Issues - Week of Sept 11.docx 2017-09-27 Consolidated - OFHP Matrix - Week of September 11 CEEB v2.docx

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Usman, please see attached and below. We considered adding use of the logo, but thought we would wait for the BN to go up first. Can add if preferred. Thanks, Emma

---

From: Qureshi, Musab (ENERGY)
Sent: September-27-17 9:50 AM
To: Schwab-Pflug, Emma (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Emma,

See attached for Afund updates to the OFHP matrix. Nothing for us in the Outstanding Business Issues note

Musab

From: Schwab-Pflug, Emma (ENERGY)
Sent: September-26-17 5:34 PM
To: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Musab, could you take a quick look tomorrow morning for any updates? I don't think we need to mention use of the logo yet, we'll send up the BN on this first.

Thanks,
Emma

From: Edwards, Matthew (ENERGY)
Sent: September-26-17 3:52 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Do we have any updates to the A-Fund content?

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
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HC

2017 Outstanding Business Issues - Week of S_10.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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2017-09-27 Consolidated - OFHP Matrix - Week _12.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of	**~~September~~ October 2017:** Target for program launch **~~Q2 2017-2018~~Fall 2017:** • The Trustees are considering submitting a proposal to

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	Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated. • ~~Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants)~~ • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program ~~as soon as possible~~in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • ~~Trustees have agreed to Hydro One's role as administrator~~ • ~~Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)~~ • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund. • ~~Trustees to brief Ministry on August 28~~	MCSS for the use of Ontario 211 services for the Affordability Fund. • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year ~~2018-19 PRRT~~ TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records	• Summer – Responding to AG Request (Ongoing)

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7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

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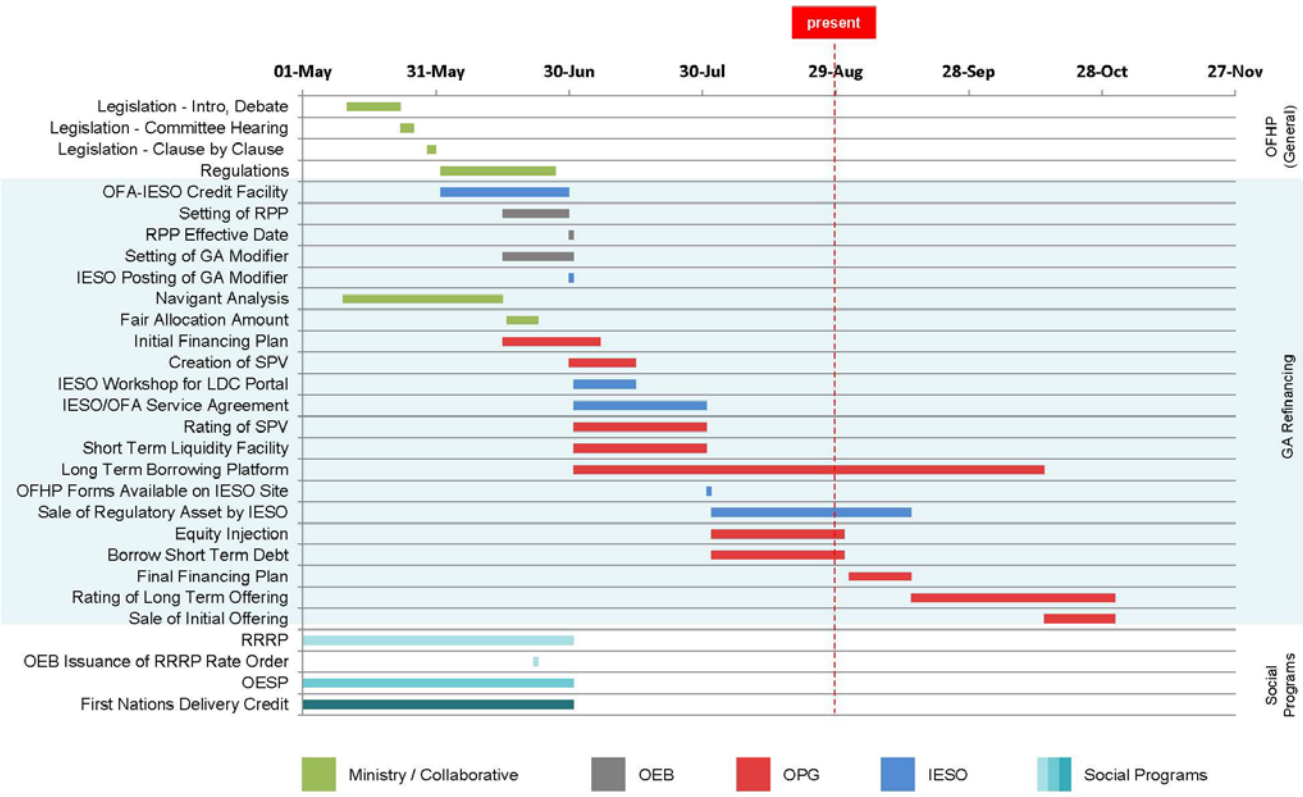
Ontario Fair Hydro Plan Implementation



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FW_ Rate Mitigation Implementation Meeting Mate...(8).pdf

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To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 10:24:00 AM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

LSB's edits.

HC

From: Thouin, Alena (ENERGY)
Sent: September 26, 2017 4:38 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hi Hilary
Attached are my comments/changes.
One thing that is not in the chart is the GA Reg. I believe that decision has been made with respect to funding out of the GA and LSB/ESPD are working on a draft Reg amendments. I included that in the comments attached.

Happy to chat.

Thanks
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Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-08 Consolidated - OFHP Matrix - Week _9.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
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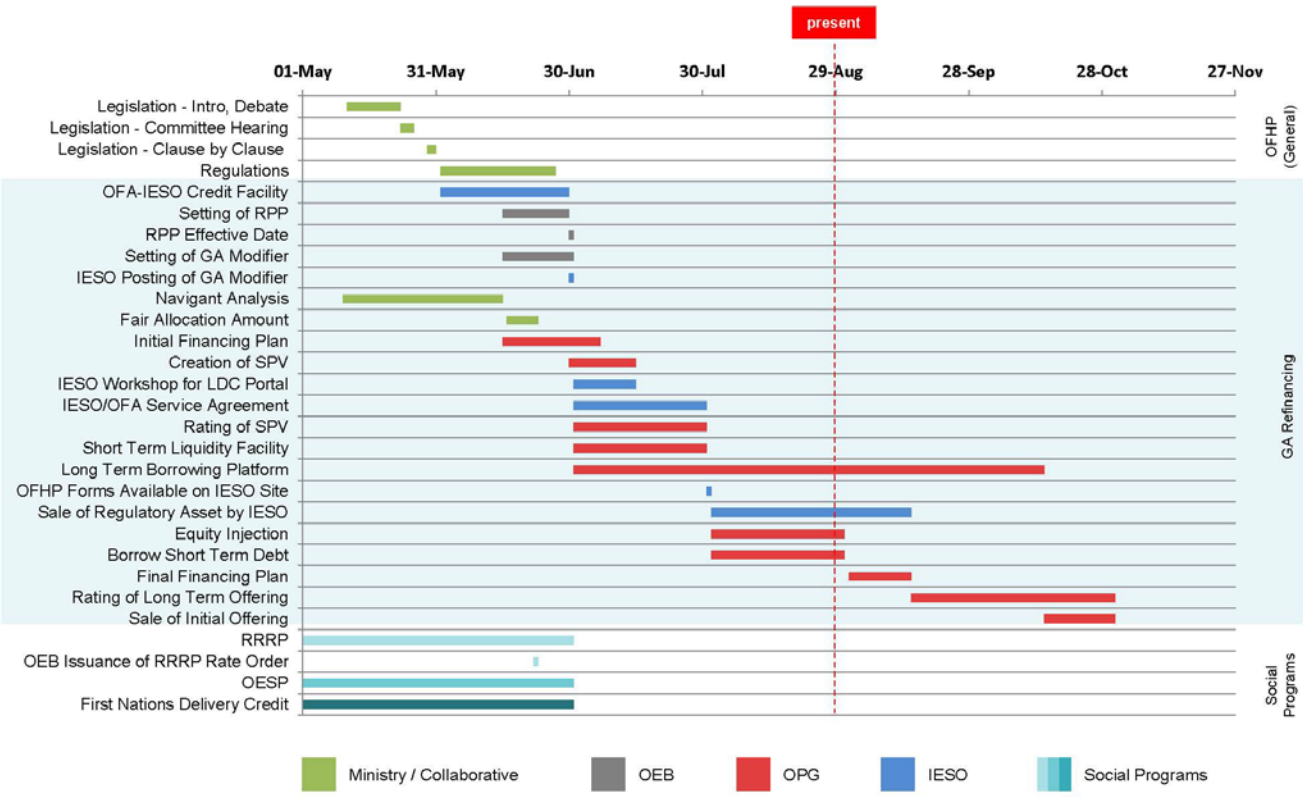
Ontario Fair Hydro Plan Implementation



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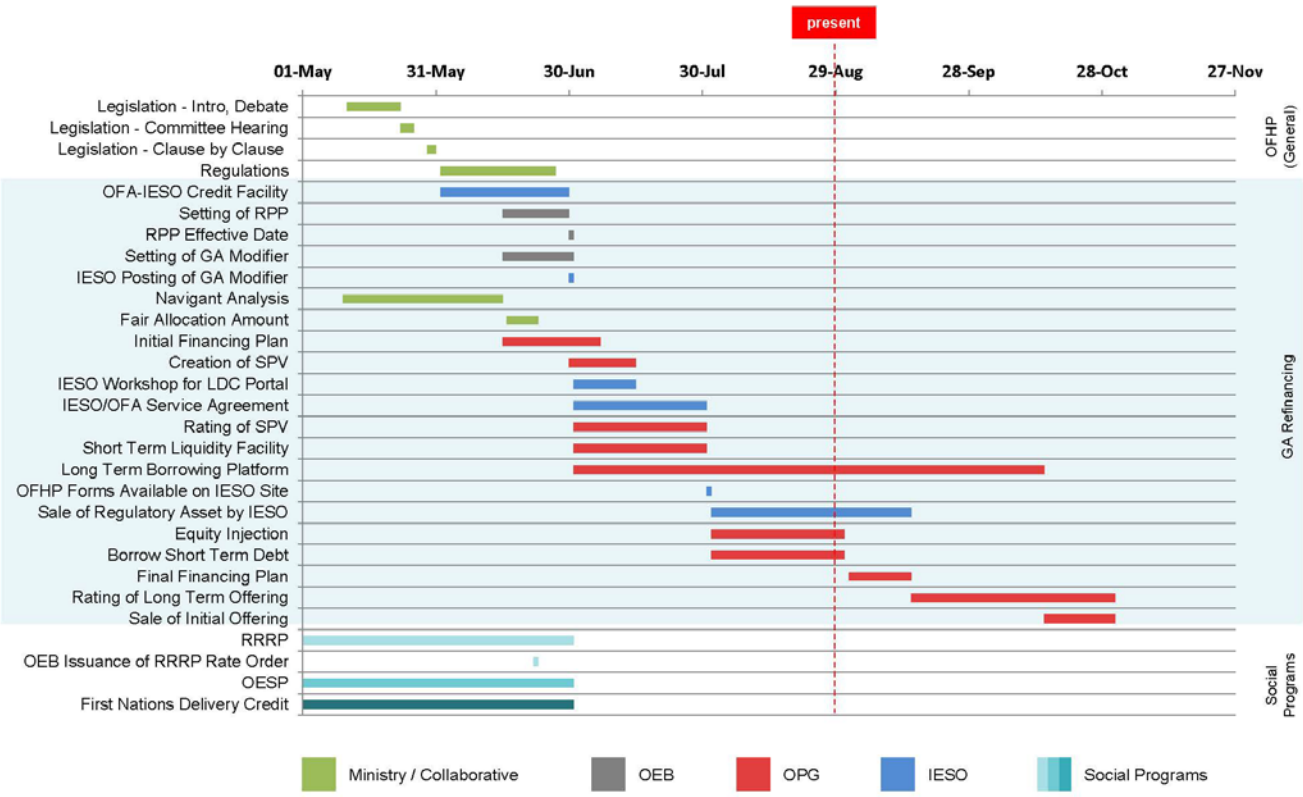

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FW_ Rate Mitigation Implementation Meeting Mate....pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Ho, Larissa (ENERGY); Montgomery, Kaitlin (MOF)
Cc:	Lightbody, Ava (ENERGY)
Subject:	FW: Rate Mitigation Implementation Meeting Materials
Date:	September 13, 2017 2:53:00 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi All –
I'll be off tomorrow and Friday so am hoping that after tomorrow's rate mitigation implementation group, you can all update the attached products with action items and return to Ava by EOD Friday. She'll send up to Martin in DMO.

HC

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017-09-08 Consolidated - OFHP Matrix - Week _11.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re:	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

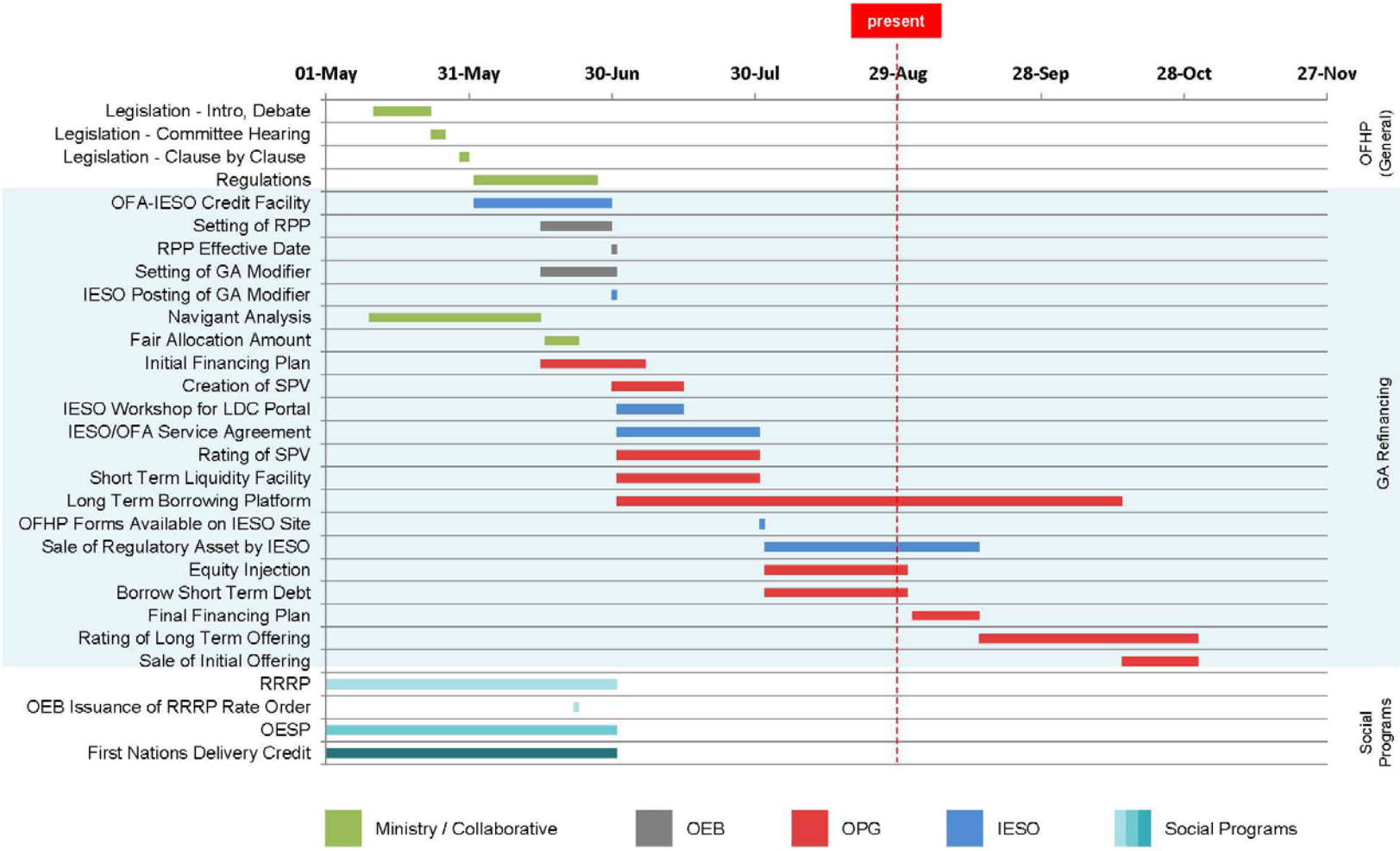
Item	Key Deliverables / Considerations	Timing / Next Steps
	PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_11.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

FW_ SCOPA - CH 2 of AG Annual Report - Status T....pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA - CH 2 of AG Annual Report - Status Table
Date: January 18, 2018 2:23:29 PM
Attachments: Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5.docx

Hello,

This one is a bit confusing to me so please bear with. As below, you may know that TBS, MOF, OFA, Energy, IESO and OPG were called to appear at Public Accounts in February regarding the AG Annual Report Ch 2. I gather that there is a meeting tomorrow with TBS DMO and everyone else to discuss the proposed approach, and for the meeting TBS has asked for draft responses to the AG recommendations in the attached Status table (which they would like for today).

This was already sent to IESO for review, but as far as I can tell not to anyone in ESP yet. TBS is reaching out to OPG for their review.

So, if this all makes sense please review the attached draft responses, bearing in mind IESO is also reviewing (am forwarding this without their mark-up in the interests of time).

Let me know if there are questions.

Ava

From: Nucciarone, Michael (ENERGY)
Sent: January 15, 2018 2:55 PM
To: Cox, Hilary (ENERGY)
Subject: RE: SCOPA - CH 2 of AG Annual Report - Status Table

Hi Hilary,

From our discussion, can ESP lead the co-ordination of responses from both the division and IESO. Before submitting to TBS, I can run the proposed responses past the Deputy.

Thanks,
Mike

From: Hosick, Sarah (TBS)
Sent: January 8, 2018 3:39 PM
To: Birks, Ryan (MOF) <Ryan.Birks@ontario.ca>; Strathy, Anna (OFA) <Anna.Strathy@ofina.on.ca>; Tarin, Ghufran (MOF) <Ghufran.Tarin@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; Hurley, Richard (TBS) <Richard.Hurley@ontario.ca>
Subject: SCOPA - CH 2 of AG Annual Report - Status Table

Importance: High

Hi everyone,

As you are likely aware, TBS, MOF, OFA, Energy, IESO and OPG were called to appear at SCOPA regarding the AG Annual Report Ch 2 on February 28th. Part of the requirements is that we submit the attached status table for the recommendations ahead of the meeting by February 14th.

Most of the responses can be based on our original management responses submitted in November (second attachment), adding any updates since that time.

I believe that TBS DMO will be setting up a meeting with everyone the week of January 22nd to go over the proposed approach for the SCOPA meeting. Ideally we would be able to provide a draft of the status table for that meeting (recognizing some responses may change based on the outcome of that meeting). Therefore let's aim to have the **first draft completed by end of day next Friday January 19th** (let me know if not feasible).

I've outlined below who took the lead in November for each of the recommendations so unless any concerns, we will follow the same approach for these.

Hilary – please let me know if you want me to reach out to IESO directly, or if you will give them the heads up.

Recommendation #	Lead
1	OPCD
2	OPCD with Energy and IESO
3	OPCD with Energy, IESO, OFA
4	OPCD
5	IESO with Energy and OPCD
6	OPCD
7	OFA
8	OPCD with OEP
9	OPCD
10	OTB and OB

Happy to discuss any of the above

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.* *OPCD with Energy and IESO*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special*	The government prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). [OPG comment re: interest cost] The government is open to continue to discuss the issue in the hopes of resolving this matter.

Report issued by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.* *Opcd with Energy, IESO, OFA*	consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and	

	cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should: • *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."*	presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

IESO with Energy and OPCD		

FW_ SCOPA - E-Binder for Distribution.pdf

From:	Nelson, Dane (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Armstrong, Hillary (ENERGY); Nucciarone, Michael (ENERGY); Clarke-Darshanand, Jamille (MOF); Ue, Allison (TBS); Skoberne, Vivienne (TBS)
Subject:	FW: SCOPA - E-Binder for Distribution
Date:	February 23, 2018 5:19:40 PM
Attachments:	SCOPA Briefing Binder_Feb 23 2018.zip

Hi Martin and Dave,

Please find the latest version of the SCOPA E-binder attached. The sections highlighted below have been updated.

Regards,

Dane Nelson, Senior Policy Advisor
Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

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Tab 1_____Agenda & Logistics Overview

Tab 2_____Strategic Approach

Tab 3_____Roles and Responsibilities Outline

Tab 4_____Summary Status Table

Tab 5_____TBS Deputy Angus Opening Remarks (updated)

Tab 6_____Comprehensive QAs

- Secretary of the Cabinet Key Messages (updated)
- Treasury Board Secretariat (updated)
- Ministry of Energy (updated)
- Ministry of Finance (updated)

Tab 7_____Long-Form Member QAs

- Treasury Board Secretariat (updated)
- Ministry of Energy (updated)
- Ministry of Finance (updated)

Tab 8_____Tips for Presenting at SCOPA

Tab 9_____Auditor General Reports

- 2017 Annual Report: Chapter 2
- 2017 Special Report on the Fair Hydro Plan

Tab 10_____Environmental Scans

- Treasury Board Secretariat (updated)
- Ministry of Finance (updated)

Tab 11_____Reference Materials

- Government Response to Auditor General's 2017 Annual Report
- House Book Notes

SCOPA Briefing Binder_Feb 23 2018.pdf

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER

Updated: February 23, 2018

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Tab 10_Environmental Scan.pdf

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Tab 11_Reference Materials.pdf

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Tab 1_Agenda and Logistics Overview.pdf

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Tab 2_Strategic Approach.pdf

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Tab 3_Roles and Responsibilities Outline.pdf

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Tab 5_TBS Deputy Angus Opening Remarks.pdf

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Tab 8_Tips for Presenting at SCOPA.pdf

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Tab 9_Auditor General Reports.pdf

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A.pdf

Attachment A. TBS Environmental Scan (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

SCOPA TBS Issues Overview_TBS_20180222.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

- Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

- There were five questions posed to Minister Sandals:
  - Three were on government advertising
  - One was on the government's **relationship with the Auditor General**

Q. Smith Cross: Minister Sandals, the auditor says it takes fortitude for her to address significant issues without fear of push-back and reprisal. **Has there been push-back and reprisal for the auditor general?**	Sandals: Absolutely not. I mean certainly at Treasury Board Secretariat, we work with her very closely. There are all sorts of projects that we've worked on together. For example, if you were to read through the fine print in the fall economic bill that's before the House right now, you would see that the first report she did on agency annual reports, we actually have in that legislation the follow up on all the recommendations that she made on that report back in 2015. **So my office does work with her quite closely.**

  - The last question was inaudible, but the answer referenced **Public Accounts**

Q. Smith Cross: (Inaudible)	Sandals: Well, I...you'll have to ask her that because I...that's that's not something I can speak to. I mean, I think it's clear that there are some issues where we have some **differences in accounting.** Those have been discussed, you know, extensively previously in public venues. A lot of you have written about pensions and fair hydro accounting and various issues. **So those are ongoing discussions that we have with the auditor.** I don't think there's any particularly new information in her chapter 2 on public accounts. **Those are issues that you are already all aware of previously, as were we**. Actually, the think that is really new and interesting about the public accounts isn't so much in the auditor's report, **as it was in the PC platform that came out, where the PCs seem to have adopted our accounting. They agree we have a balanced budget. They've used our pension accounting. They've assumed our accounting for the hydro sector.** And, in case you think I made this up, Kevin Page who is the former federal budget officer, who reviewed the Conservative platform, says that he believes that using the economic and fiscal assumptions from the Ontario fall economic statement is a reasonable starting point for costing an election platform. **So he's acknowledging the fact that our accounting, in the fall economic statement is, in fact, the accounting that has been adopted by the Conservative Party.**

- **PC Response**
  - Introductory remarks focused generally on waste and mismanagement.
  - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

- **NDP Response**
  - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
  - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
  - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
  - 41% of articles referenced TBS-related issues
  - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
  - **The government's relationship with the Auditor General**
  - **Pre-election report**
  - **Distrust of government numbers/"two sets of books"**

  Recent articles include:
  - Lorrie Goldstein: **"Clock ticking for Liberals as pre-election finance report deadline looms"** (Toronto Sun, December 16, 2017)

    - **Minister Sandals spokesperson quoted:** "A spokesperson for Treasury Board President Liz Sandals told the Sun in an email that **Sandals and Lysyk have, "spoken at length about the Pre-Election Report process, and agree that the past format and process won't work during the 2017 election cycle, given the proximity of the spring budget season to the early summer election date."**

      The email added: "In conversation with the Auditor, Minister Sandals has emphasized her commitment, and the commitment of our government, to openness and transparency. We will continue to work collaboratively with the

Office of the Auditor General to determine how we can best ensure that this commitment is fulfilled."

- Jim Warren: **"The role of auditor general is shifting in troubling ways"** (Toronto Sun, December 16, 2017)

  - "However, the role of the auditor general today has increasingly become one that embarrasses government and serves to point a finger of blame rather than show a new direction for the better. **This new role is actually further eroding trust in government and making matters worse.**

    We saw this trend alive and well last week in Ontario as provincial Auditor General Bonnie Lysyk released her annual report and held a media availability on Ontario Premier Kathleen Wynne's Liberal government.

    Lysyk identified some areas that the government must act and provided some useful information for the public. **But in some specific areas, she pushed the boundaries of what is an independent audit versus what should be kept in the political arena.**

    This continues a trend in Ontario that former ombudsman Andre Marin started when he took his role as an independent officer of the legislature and made it political. Marin was accused of crossing the boundary from independent officer of the legislature into partisan politics. When he eventually ran as a Progressive Conservative against the Liberal government he criticized, Marin lost."

- Lorrie Goldstein: **"Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted"** (Ottawa Sun, December 17, 2017)

  - "Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister Charles Sousa that the government's books are now balanced and will be for at least the next two years, **the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.**

    While the government predicted a balanced budget for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict

the actual deficit this year will be in the range of $4 billion to $4.5 billion."

Public Accounts

- **Media Coverage**
  - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
  - Government key messages were picked up 100% of the time
  - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
  - Top themes in the first 24 hours of media coverage of Public Accounts 2016-17:
    - **Disagreement between the government and auditor general**
      - "Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards." (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books." (David Reevely, "Ontario government's rosy financials grow in a bed of BS," Ottawa Citizen, Sept. 7, 2017)
      - **"Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)

    - **Ontario's fiscal position: government debt and deficit**
      - Canadian Press coverage focused on Minister Sandals' quote from the media event: "The public wants to know, are you managing your deficit?" she said. **"Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Conservative finance critic Vic Fedeli says it is clear that the provincial debt is "out of control." He said in a statement Thursday that the Liberals are thumbing their nose at the legislature's independent experts and presenting their own version of the province's public accounts." Shawn Jeffords, "Ontario says 2016 deficit was $991M, auditor general says

government 'understating' deficit," The Canadian Press, Sept. 7, 2017)

- **The government's alleged continued dismissal of watchdogs**
  - "Auditor general Bonnie Lysyk said Thursday the government "significantly understated" its deficit - $1.4 billion in her view - while the Financial Accountability office this week called the Liberal plan to reduce the debt burden "unlikely."" (Christopher Reynolds, "Ontario's deficit drops to $1 billion, though fiscal watchdogs have a bone to pick," Queen's Park Briefing, Sept. 7, 2017)

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

On February 20, 2018, during Concurrence in Supply, MPP MacLeod referenced the Auditor General's annual value-for-money audits:

> "But one of the things that I would like to do as I conclude is to talk a little bit more about value-for-money audits in the province of Ontario and where we can find waste. We know, for example—**Speaker, as you know, I'm the Vice-Chair of the public accounts committee and I'm the Treasury Board critic, as well as the finance critic—that one of the things that we see each and every time that there is an auditor's report is, sometimes, billions in waste.**
>
> Before we left at Christmas, a few days before we left and recessed for the time being, the Auditor General came out—an independent officer of this Legislative

Assembly—and indicated to all of us that there was at least $1 billion in waste throughout the system that could be absorbed in other ways and in better spending in the province of Ontario for programs."

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD

OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Stakeholder reports and commentaries (e.g. Ontario Chamber of Commerce Economic report; FAO report on Hydro One; Fraser Institute commentaries on fiscal situation)
- Third Quarter Ontario Finances
- Executive compensation (e.g. OPG & IESO)
- IESO/OPG "inappropriate expenses"
- IESO Audit Committee meeting
- OPG Financing of Regulatory Assets

Recent TBS SCOPA Appearances

November 15, 2017
2016 Annual Report, Auditor General
Consideration of chapter 5, Review of Government Advertising

May 31, 2017
2016 Annual Report, Auditor General
Consideration of section 4.03, Information and Information Technology General Controls

October 5, 2016
2015 Annual Report, Auditor General
Consideration of chapter 2, Public Accounts of the Province
- Report published on May 17, 2017

April 13, 2016
2015 Annual Report, Auditor General
Consideration of chapter 5, "Toward Better Accountability"

- Report published on December 5, 2016

SCOPA - MOF Issues Scan (Feb 2018).pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MINISTRY OF FINANCE – ISSUES SCAN

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Hydro One sale will lead to long-term costs for Ontario: Financial Accountability Office

- **Canada - National Post**
- **Mon Feb 12 2018**
- **Section:** Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - Taxpayers would have saved $1.8 billion if the **Ontario government** had taken on traditional **debt** to fund infrastructure projects instead of partially privatizing Hydro One to pay for the work, the province's fiscal watchdog said Monday.

In a report that examined the Liberal government's sale of shares in the utility, the Financial Accountability Office examined both scenarios and found the cost implications were clear.

"Over the long term, the FAO estimates that the province's net **debt** will be higher as a result of the partial sale of Hydro One when compared to an alternative of borrowing to finance an equivalent amount of infrastructure investment," said Jeffrey Novak, chief financial analyst for the FAO.

Hydro One went public in November 2015, with the province saying it planned to use the sale of shares to fund transit and infrastructure projects. By December 2017, the province had sold off 53 per cent of its stake in the company.

Ontario Premier Kathleen Wynne speaks to media at the Legislative Assembly of Ontario in Toronto on Thursday Jan. 25, 2018.

The FAO analysis said that in the first three years after the partial privatization, the province saw a total profit of $3.8 billion on the deal.

But by 2018-2019, the FAO forecasts a loss of $1.1 billion because of one-time charges and fewer dividends as a result of the province's smaller stake in the company.

The FAO report also warns that Hydro One's $4.4 billion deal to buy U.S. energy firm Avista will "dilute" Ontario's shares of Hydro One ownership from 47 per cent to 42 per cent.

"To purchase Avista Hydro One is issuing convertible **debt** to the folks who own Avista,"Novak said. "When the purchase is completed that convertible **debt** will be transformed into shares of Hydro One. The province will just have less of a percentage of overall shares outstanding in the company."

The Electricity Act, which regulated the sale of Hydro One shares, requires the province to take steps to ensure that its ownership stake remain no lower than 40 per cent. That

means if further purchases shrink Ontario's ownership of the company it will have to buy back shares.

Energy Minister Glenn Thibeault said the government remains the largest single Hydro One shareholder and the company continues to be subject to provincial oversight.

"Hydro One's rates will continue to be regulated by the Ontario Energy Board - the province's independent energy sector regulator," he said. "In fact, our government passed legislation that has further strengthened the board's oversight.

As of December 2017, the province had raised an estimated $9.2 billion by selling Hydro One shares, the FAO said. The Liberal government has said they plan to use $5 billion to pay down leftover **debt**, while the remaining $4 billion would fund transit and infrastructure projects.

NDP energy critic Peter Tabuns said the FAO's analysis backs up his party's argument that the utility's partial privatization is bad for Ontarians. The NDP have promised to buy back shares of Hydro One and return it to public ownership if elected in the spring election.

"We're going to have less revenue in the future (from Hydro One)," he said. "That means less money for schools and hospitals. We're going to have higher **debt** charges than we would have had if we'd simply borrowed the money … In every aspect, this has been a bad deal for Ontarians."

PC finance critic Lisa MacLeod said the Hydro One share selloff has helped the government balance its budget before the election but will have consequences down the road.

"This was short-term gain for very long-term pain," she said. "This is not a good deal for Ontarians."

- **Length:** 596 words
- **Tone:** Neutral
- **Reach:** 607500

They'll be the debt of us; Liberals go on $7-billion election-year spending spree

- **Toronto Sun**
- **Tue Feb 6 2018**

- **Page:** A6
- **Section:** News
- **Byline:** James Wallace
- **Source:** Toronto Sun

How bad is Kathleen Wynne's credit-card addiction? Prepare to be depressed. Ontario Liberals ran deficits in 11 of their past 14 budgets, almost 80% of the time, a new Fraser Institute report by Ben Eisen reminds us.

Liberal deficits ranged from $991 million to $19.3 billion annually and averaged $8.6 billion annually while Wynne and Dalton McGuinty held office.

Over the same period, Liberal program spending - excluding **debt** - increased from $70 billion to $130 billion, an 84.6% increase, almost double the 44% growth necessary to offset inflation and population growth.

And now, in an election year, Wynne's government has massively hiked spending - by $7 billion over last year.

It's difficult to see that as anything but the craven, self-serving tactic of a government that cares primarily about clinging to power and little about the damage living beyond our collective means causes the province, or the **debt** it's heaping on future generations.

Over the past several months, the Wynne government has rolled out a succession of free-for-all campaign promises - free tuition, hydro rate cuts, free prescription meds for youth.

They are, of course, not free, and in fact come with an onerous price tag.

Provincial net **debt** has increased dramatically since the Liberals were elected in 2003, the Fraser report notes, currently some $302 billion or $21,500 for every soul in the province. Net **debt** stood at $138 billion when the Liberals took power.

"Between 2003 and 2015, Ontario added more **debt** either per person or relative to the size of the economy than any other province in Canada and by quite a bit," Eisen said.

Following a period of "modest" spending restraint over the past four years (since the last election) the Liberals have returned in an election year where they're dogged by scandal and lousy poll numbers to spending money they don't have and piling on **debt**.

"The government, by its own accounting, is adding **debt** and the pace of date accumulation hasn't even really slowed down in the past few years," Eisen said.

And that accounting is pretty loosey-goosey.

Ontario's Financial Accountability Office concluded last year that the Liberals were hiding a $4-billion deficit this year, while claiming they would balance the province's books. The FAO estimated Ontario's actual deficits at $4 billion this year, $7 billion in 2019, $9 billion in 2020 and almost $10 billion in 2021; Provincial Auditor Bonnie Lysk

calculated the Liberals'25% hydro rate cut will cost $4 billion in unnecessary interest payments, improperly took $26 billion off the province's books and will drive up rates for 30 years.

Eisen, in his report "Repeating Past Mistakes? Spending Restraint Critical for Ontario's Fiscal Health" suggests the cold, hard facts clearly show the Liberals are living off a credit card.

"No matter how you slice it, no matter whose accounting you want to use, Ontario's government is continuing to rack up **debt** to the tune of about $10 billion a year," he said.

"So the notion we're making huge fiscal progress is wishful thinking at best."

The most obvious consequence of higher **debt** is higher **debt** payments, which are poised to hit $12 billion annually, eating up eight cents of every dollar in government revenue.

In context, families deal with this issue on a daily basis. The higher your house mortgage the less you have to spend on food, lights and other necessities - in Ontario's case, health care, education, transit, social housing and other critical services.

Neither is Ontario's economy growing as it should, as the rest of Canada is.

From 2003 to 2015, inflation adjusted per-person economic growth in Ontario averaged 0.5% annually, about half the growth rate in the rest of Canada.

Meanwhile, Ontario now has the highest hydro rates in Canada, the highest auto insurance premiums, the highest sub-sovereign **debt** in the world, and a declining auto and manufacturing sector.

Had the Liberals managed modest restraint over the term of government, more in line with GDP growth and inflation, program spending last year would have been $20 billion to $30 billion lower and the government would have been sitting on a $19-billion to $28-billion surplus, Eisen calculated in his report.

It was the road not taken, and all Ontarians will wear the price of that for years to come.
jawallace@postmedia.com

- **Length:** 680 words
- **Tone:** Negative
- **Reach:** 171076
- **Illustration:** / Sources: **Ontario, Ministry Of Finance** (2003-2017) And **Ontario, Ministry Of Finance**(2017)-Fraser Institute Graphic; / (See hardcopy for photo); / WYNNE Hiked spending;

Ontario's finances are still a mess

- **Toronto Sun**
- **Wed Jan 10 2018**

- **Page:** A15
- **Section:** Comment
- **Byline:** Beneisen
- **Source:** Toronto Sun

Last spring, Ontario Finance Minister **Charles Sousa** tabled a **balanced budget** for 2017/18, the province's first since 2007/08.

The Wynne government frequently points to this projection as evidence that it's managing public finances effectively.

However, there are many reasons to treat such claims with skepticism.

For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits.

Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.

There are still more reasons to be concerned about the health of Ontario's finances.

Among the most important and under-discussed is that to shrink the deficit in recent years, the Wynne government has relied heavily on large annual increases in transfer payments from the federal government.

Despite constant tension between the McGuinty/Wynne governments and the Harper government in Ottawa during the latter's time in office, in reality, federal transfer payments to Ontario have grown briskly in recent years.

Specifically, in 2009/10, the federal government sent $14.3 billion in major transfers to Ontario.

This number has steadily swelled and will reach $21.1 billion this year - a nominal increase of 48% in eight years.

That's a far faster increase than what would have been necessary to offset inflation and population growth and far faster than provincial economic growth.

In fact, holding all else constant, if the growth of federal transfers to Ontario had been in line with either of these economic indicators, the province would still face a significant

deficit today.

In short, rapid growth in transfer payments is an important and frequently overlooked reason for Ontario's recent deficit reduction.

One reason that overall transfers to Ontario are up is that the province has, since 2009/10, received equalization payments.

To simplify slightly, equalization is a federal program that gives money to lowerincome provinces to help them fund public services.

Ontario became eligible for the program for the first time in history in 2009/10 and has remained eligible since.

Equalization payments to Ontario peaked at $3.3 billion in 2012/13 and have come down gradually, but they remain a source of revenue.

This year, the government is receiving $1.4 billion through the equalization program.

In total, the province has received $18 billion in equalization since 2009.

Again, without this historically unprecedented help from Ottawa, the recent runup in Ontario's **debt** would have been even worse.

Recently, the federal department of finance revealed equalization payments for 2018/19, confirming Ontario will indeed continue to receive them.

In other words, the province will retain its status as a lowerincome, "have-not" province, relying on equalization payments to help fund programs for another year.

And yet, the Wynne government frequently points to its **balanced budget** projections as proof of its successful approach to public finances.

In fact, the province went a full decade between balanced budgets, triggering a huge run-up in public **debt**.

Even then, the government has needed a lot of help - from both its own questionable accounting methods and a big increase in federal transfers - to finally present a **balanced budget**.

Simply put, the idea that a notionally **balanced budget** means Ontario's finances have been restored to health simply does not withstand scrutiny.

Eisen is director of the Fraser Institute's Ontario Prosperity Initiative.

- **Length:** 542 words
- **Tone:** Neutral
- **Reach:** 171076

Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted

- **Toronto Sun**
- **Sun Dec 17 2017**

- **Page:** A8
- **Section:** News
- **Byline:** Lorriegoldstein
- **Source:** Toronto Sun

It's unprecedented in Ontario's political history.

With less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.

Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister **Charles Sousa** that the government's books are now balanced and will be for at least the next two years, the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.

While the government predicted a **balanced budget** for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict the actual deficit this year will be in the range of $4 billion to $4.5 billion.

The Liberals' budget speech also predicted balanced budgets for the 2018-19 and 2019-20 fiscal years.

But the FAO last week, supporting earlier findings by Lysyk, projected a $7.1 billion deficit in 2018-19, $7.8 billion in 2019-20, $9 billion in 2020-21 and $9.8 billion in 2021-22.

Counting all government fiscal obligations, the FAO projected that, "Ontario's net **debt** will increase by more than $75 billion over the next four years to approximately $400 billion, on the Auditor General's accounting basis."

(When the Liberals took office in 2003, Ontario's net **debt** was $138.8 billion) The FAO warned "rising **debt** will increase the Province's net **debt**-to-GDP ratio (a key indicator of financial health) to over 41% by 2021-22, well above the government's interim target of 35% by 2023-24."

Wynne's goal of reducing the net **debt**-to-GDP ratio to prerecession levels of 27% by 2029-30 appears even more unlikely.

Lysyk and the FAO warn there are serious financial implications to the fact the province now has, in effect, two sets of books, one by the Wynne government and the other by independent financial officers of the Legislature whose job is to report on the province's fiscal situation.

In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of non-standard accounting" will "seriously distort the true state of the province's finances…The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances."

In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers'Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions.

She also contends the financial borrowing required to finance Wynne's reduction of electricity rates by 25% is improperly designed to keep the costs from impacting Ontario's annual deficits and **debt**, and will require the public to pay $4 billion more than necessary in interest payments over three decades.

As a result, Lysyk has refused to give the Wynne government's Consolidated Financial Statements a clean bill of health, issuing a "qualified opinion" regarding their accuracy last year, the first time an Ontario auditor general has done so in more than two decades.

The Wynne government disagrees with Lysyk's conclusions, portraying it as an accounting dispute.

In November 2016 it hired what it described as an expert, fourperson pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers'pension plan.

The government also issued a 1057-word rebuttal of Lysyk's findings on its Fair Hydro Plan, stating, "the **government of Ontario** does not agree with the assertions and conclusions expressed in the report by the Office of the Auditor General", adding it had

consulted “legal, accounting, financial and energy sector third-party experts” to ensure it was in compliance with “Public Sector Accounting Standards.“lgoldstein@postmedia.com @sunlorrie

- **Length:** 677 words
- **Tone:** Negative
- **Reach:** 222184
- **Illustration:** Stan Behal, Toronto Sun Files / KATHLEEN WYNNE; / SOUSAFinance minister;

EDITORIAL: Liberals hiding deficit, second watchdog says

- **torontosun.com**
- **Wed Dec 13 2017**
- **Section:** Editorials
- **Byline:** Postmedia News
- Permalink

The financial credibility of Premier Kathleen Wynne’s government has taken another huge hit with a second independent, non-partisan financial watchdog of the Ontario Legislature saying Liberal claims they’ve balanced the budget are inaccurate.

The legislature’s Financial Accountability Office Monday supported an earlier finding by auditor general Bonnie Lysyk that the Liberals are using accounting tricks to hide their deficits from the public.

Contrary to claims by Wynne and Finance Minister **Charles Sousa** in his April 28 budget speech projecting balanced Ontario budgets for 2017, 2018 and 2019, the FAO reported the Liberals are running a deficit this year and predicted they will continue to do so under their current fiscal policies.

The FAO projects the provincial deficit at $4 billion this year, $7.1 billion in 2018, $7.8 billion in 2019, $9 billion in 2020 and $9.8 billion in 2021.

It says these projections are based on weaker revenue growth and the Wynne government’s rejection of “the Auditor General of Ontario’s recommended accounting treatment for both the government’s Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.”

Defying the auditor general, the Wynne government hired what it described as an expert panel, which endorsed its pension accounting.

It also denied Lysyk’s finding its financing of the Fair Hydro Plan to reduce electricity rates by 25% is an accounting trick.

Lysyk said this will cost Ontarians $39.4 billion, including $4 billion extra in interest payments, because the Liberals are transferring the **debt** to Ontario Power Generation

to keep it off the province's books.

FAO chief economist David West said Monday in releasing the FAO's report which backed Lysyk that: "The government is out borrowing this money. This current year they're going to borrow $23 billion in the markets. That's going to rise to $45 billion in the coming years."

The FAO said the Fair Hydro Plan will add $3.2 billion to the deficit by 2021-22.

It also said the Wynne government's rejection of Lysyk's recommended accounting measures means, "it is becoming more difficult for legislators and the public to assess the government's fiscal projections" which "has reduced the transparency and reliability of Ontario's fiscal plan."

In other words, the Liberals' budgeting can't be trusted.

- **Length:** 346 words
- **Tone:** Negative
- **Reach:** 326700

Liberals Under Fire For 'Cooking' Ontario's Books; 'Fair Hydro Plan' undermines accountability standards

- **Toronto Sun**
- **Sun Oct 22 2017**

- **Page:** A5
- **Section:** News
- **Byline:** Antonella Artuso
- **Source:** Toronto Sun

Ontario's Auditor General Bonnie Lysyk revealed this week that Kathleen Wynne's government hid the cost of its "Fair Hydro Plan" from taxpayers.

The way they did it has raised concerns other governments across the country could follow suit and bury deficits.

Although ratepayers will get a temporary, 25% break over four years on their hydro bills, the plan will cost "up to $4 billion more than necessary" in interest, Lysyk said.

The Liberals also "improperly" moved $26 billion in hydro **debt** off their books, borrowing the money through Ontario Power Generation, and as a consequence hydro ratepayers will face increases for 30 years.

Lysyk argued that was like claiming your credit card **debt** is an asset.

Tory leader Patrick Brown was more blunt, accusing the government of "cooking the

books" to "look good in an election year" "Ontario's Auditor General uncovered an appalling attempt to hide the true $4 billion cost of Kathleen Wynne's hydro rebate scheme, a price which will be paid by ratepayers, Brown said in a statement.

"She concluded senior government officials knowingly ignored the government's own policy for preparing financial statements to create an unnecessary, complex, financing structure designed to keep the true financial impact of its rate reduction scheme off the province's books.

"More damningly, the Auditor General said the Canadian Public Sector Accountability Standards are the standard for all federal and provincial governments of Canada and that the Liberal Government "has brushed aside these standards," he said. "The unavoidable and very strong suggestion is that something highly improper has transpired."

Meanwhile, Ontario's budget slight-of-hand is raising questions across the country.

"Listen, if Ontario can legislate an asset in this case, and everybody thinks that's okay, then you can bet your booties Quebec will be right on the train following them and so will British Columbia," said Tim Besuchamp, the former director of the Public Sector Accounting Board (PSAB) of Canada. "Anybody who's got a deficit - they'll just make it go away by creating an asset."

If Ontario's method of accounting for expenses spreads, taxpayers might never know if their government is truly in the red or black or even how big a **debt** has been run up, said Beauchamp, who's spent 27 years helping develop clear and open accounting standards so citizens can see what their governments are doing.

"And so the bottom line, everything balanced to zero," he said. "And that's just not the way it is."

For their part, Ontario Energy Minister Glenn Thibeault said the government wanted to make sure the borrowing costs for the Fair Hydro Plan were borne by hydro customers, not taxpayers.

Rate-regulated accounting is commonly used in the energy sector, he said, and cast doubt on the auditor's projection of $4 billion in extra borrowing costs.

Colin Nekolaichuk, a spokesperson for Thibeault, said in an email that "It was essential that we get the structure right (of the Fair Hydro Plan) while delivering the meaningful relief Ontario families needed," Beauchamp acted as a consultant for Lysyk but said she only asked him what he thought of the accounting plan, not to confirm her opinion.

Lysyk also canvassed Auditors General across Canada, and everyone agreed that Ontario was going down the wrong path, he said.

"If they get that through to the province's financial statements, then every province, every municipality in Canada, will take advantage of it," Beauchamp said. "It will destroy what the Public Sector Accounting Board has worked for ever since it started."

Public accounting standards, in the U.S. as well as Canada, mandate that governments not treat taxes yet to be levied as an asset, he said.

He dismissed the position of the **Ontario government**, that this is at its heart an accounting dispute.

"(This) is going to bleed through the whole public sector in Canada," Beauchamp said. "It sets a precedent…It's not two accountants sitting in a boxing ring having it out with each other." aartuso@postmedia.com

- **Length:** 650 words
- **Tone:** Negative
- **Reach:** 222184
- **Illustration:** Craig Robertson, Toronto Sun / Premier Kathleen Wynne defends her government in the Legislature regarding a special report from Ontario Auditor General Bonnie Lysyk, inset.; / (See hardcopy for photo);

Provincial Debt: The Next Generation; Ontario set to hand billions in unpaid bills to young people

- **Toronto Sun**
- **Fri Oct 20 2017**

- **Page:** A6
- **Section:** News
- **Byline:** Antonella Artuso
- **Source:** Toronto Sun

Ontario is facing three decades of soaring **debt** unless the provincial government permanently raises revenues or cuts spending by at least $6.5 billion, the Financial Accountability Office of Ontario (FAO) says.

Otherwise, much like the recent decision to push off some hydro costs on future Ontario electricity customers, it will have to go on the tab of younger generations.

FAO chief economist David West said that as the baby boomers retire and age, it will put enormous pressure on the provincial budget.

Without a significant and speedy response from government, the **debt**-to-GDP ratio would rise to a staggering 63% by 2050, gobbling up public funds for **debt** replayment charges instead of health and education services, he said.

"The longer the government delays fiscal policy changes, the more expensive it will be

for future Ontarians," West said.

The FAO's Long-Term Budget Outlook looked at the provincial economy and the province's fiscal position over the next 30 years.

The report released Thursday opens with the Yogi Berra quote, "The future ain't what it used to be."

According to the FAO projections, unless Ontario makes significant changes to its budget, future governments will be in a poor position to respond to any financial crises such as a recession.

"Importantly, if the needed fiscal adjustments are postponed, the burden of stabilizing Ontario's public finances would be increasingly shifted from the baby boom generation to younger Ontarians," the report says.

The **Ontario government**'s vow to lower provincial debt-to-GDP from its current 40% to 27% by 2029-30 would require higher taxes or lower spending starting this year, the report says.

Finance Minister **Charles Sousa** said the report also notes that the growth in the province's economy is projected to remain strong.

Seniors are living longer so the government is taking steps to encourage savings, one of the reasons why Ontario led the national discussion on enhancing pensions in retirement, he said.

"And as a government, we need to be fiscally responsible, we need to manage effectively those social programs, the extension of universal health care," Sousa said.

PC MPP Vic Fedeli said the FAO painted "a very bleak and a very stark picture" of the province's budget future.

"It won't be left to just the baby boomers to pay the **debt**," Fedeli said. "It's now going to roll over into Ontario's youth."

Ontario already owes more than $307 billion. aartuso@postmedia.com

- **Length:** 389 words
- **Tone:** Neutral
- **Reach:** 171076
- **Illustration:** Dave Abel, Toronto Sun / Onatrio's FInancial Accountability Office says the province faces decades of soaring **debt** unless provincial revenues are boosted or the government slashes spending by at least $6.5 billion. Finance Minister **Charles Sousa**, right, remains confident in the health of the provincial economy.; / (See hardcopy for photo);

Millennials will have to deal with Ontario's debt unless action taken: watchdog

- **National Post**
- **Thu Oct 19 2017**
- **Section:** PMN Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - Millennials will have to foot the bill for Ontario's rising **debt** over the next three decades if the government doesn't hike taxes or cut spending by $6.5 billion annually to address major demographic changes, the province's fiscal watchdog warned Thursday.

As the baby boom generation ages, the province's economy will change, experiencing slow revenue growth and requiring increased spending on social programs like health care, Ontario's Financial Accountability Office explained.

Consequently, government **debt** - which currently sits at $312 billion - will be driven up unless taxes are increased or spending is cut beginning next year, the office warned in its long-term budget outlook.

"If these difficult fiscal changes are postponed the burden of stabilizing Ontario's public finances would be increasingly, and arguably unfairly, shifted from the baby boom generation to younger Ontarians," said David West, the FAO's chief economist.

The FAO report, which took a year to research, said balancing the province's budget annually won't be enough to offset the financial impacts of the aging demographic. The government must generate surpluses and use that cash to pay down **debt**, it said.

West acknowledged, however, that a $6.5 billion tax increase or spending cut would have large budget implications.

"(It's) roughly equivalent to eliminating funding for 40 per cent of the province's hospitals, raising the HST rate by two percentage points, or a 25 per cent increase in federal transfers," he said.

The report recommends the **Ontario government** stick to a promise it made to drop the provinces' **debt**-to-gross domestic product ratio from its current level at 40 per cent to 27 per cent by 2030. West said the measure, which gauges the province's ability to pay back and manage **debt** interest payments, would actually increase to 63 per cent by 2050 if significant fiscal changes aren't made.

"Since the demographic pressures on the budget will not intensify until the mid-2020s it will be tempting to postpone or even ignore the difficult fiscal policy changes that are going to be required to stabilize or reduce Ontario's **debt** burden," he said, adding that

would result in higher costs to reduce the **debt**.

Ontario Finance Minister **Charles Sousa** said the province takes the FAO's findings seriously, but he would not commit to either hiking taxes or slashing spending. The province will find ways to foster further **debt** management, he said.

"In all of Ontario's history, for that matter even Canadian history, very little has ever occurred in terms of reduction in actual **debt**," he said. "Ontario's **debt** is managed by its ability to support growth in our economy. I am very sensitive to the degree of **debt**."

Ontario Progressive Conservative finance critic Vic Fedeli called the FAO report a "bleak and stark" budget picture.

"The **debt** is going to crowd out the services that families need like health and education," he said. "All the things people have come to rely on they will struggle to pay for and the baby boomers **debt** will now roll over to the younger Ontarians."

Peter Tabuns, an NDP legislator said the government has been fiscally irresponsible and has tried to deal with budget shortfalls by selling off public assets.

"Their whole approach is one that's making the fiscal picture in Ontario much tougher,"he said.

- **Length:** 532 words
- **Tone:** Negative
- **Reach:** 607500

Government borrowing to lower hydro bills gets broadside from AG

- **National Post**
- **Wed Oct 18 2017**

- **Page:** A5
- **Section:** Canada
- **Byline:** David Reevely
- **Source:** National Post

Hiding billions of dollars the **Ontario government** is borrowing to lower electricity bills for a few years will cost hydro users an extra $4 billion, the province's auditor general reported Tuesday.

Maybe worse, Bonnie Lysyk said in a special report on the Liberals' "Fair Hydro Plan," the tricks the government is using throw doubt on all the province's books. The government, citizens, auditors and giant institutions that lend the province money are pretty much operating in a post-truth universe, where what the Liberals say is going on

with Ontario's finances has begun to drift from any previously understood shared reality.

What the Liberals have done "would be unacceptable in the private sector, and we maintain that this is also unacceptable in the public sector," Lysyk reported. "If the consolidated financial statements are so unreliable that an adverse opinion is warranted, terms like '**balanced budget**, 'deficit, 'asset' and 'net **debt**' will be meaningless."

Here's what's happening. Earlier this year, Premier Kathleen Wynne gave up defending the increases in the price of electricity since the Liberals took over in 2003. She and her cabinet put together a plan to cut bills that amounted to paying today's costs with borrowed money and repaying it with interest later. It has already cut residential bills by an average of 25 per cent, beginning last summer. And it will increase them by a combined total of $21 billion over time, when all that interest has to be paid, according to a report by Ontario's financial accountability officer (whose job is specifically to run budget numbers independently of the government, and whose findings Lysyk used for her dollar figures).

The argument the government makes is that the investment in cleaner and more reliable power will benefit us for a long time, so we should pay for it over more years - that's "fairer." This is debatable but not obviously ludicrous. That additional "fairness" is costing $17 billion in interest, spread out over years.

The Liberals really, really, really wanted to keep that **debt** off their books, so they could also go into the next election saying the budget is balanced. Borrowing billions in an election year would get in the way. So they did some financial engineering to put the **debt** on Ontario Power Generation instead. The Crown corporation is publicly owned but it doesn't get interest rates as good as the provincial government itself, so that's where the $4-billion premium comes in.

Her team looked at emails from the upper reaches of several government ministries, though the Ministry of Energy kept some back, Lysyk's report says. "Hopefully they'll come to the conclusion that it can be financed by the province … rather than externally, as that would be a lot simpler and cheaper," she quotes one unnamed senior official, in an email. Nope. OPG is borrowing the money on our behalf and then there's a complicated interplay of regulatory and financial manoeuvres to book money we're expecting hydro users to pay for electricity in the 2020s, '30s and '40s as assets that balance off the **debt**. The essence is to say Ontarians are borrowing these billions as hydro ratepayers, not as voting citizens.

Same people, different hats, different rules.

All of which is bull, Lysyk says. The point of accounting is to tell you how much money you have, how much you owe and how much you are owed. That's what the standards for Canadian public-sector accounting are supposed to achieve.

“These standards are there to ensure that the financial reporting of government policy decisions reflects common sense: borrowings are **debt**, unearned revenue is not an asset today and when your expenses exceed your revenues, you incur a deficit,” Lysyk said Tuesday. Nobody has used electricity in 2025 yet, let alone 2040. You can’t count guesstimates of use and prices 20 years down the line as an asset today.

The usefulness of doing so was visible when Energy Minister Glenn Thibeault and Treasury Board president Liz Sandals responded to Lysyk’s report. They think the $4-billion estimate for the extra cost of hiding the **debt** is too high. They argue the gap between the government’s interest rate and Ontario Power Generation’s might not be as big as the financial accountability office thinks.

They could be right - we won’t know for sure till the 2040s. So it’s a bit weird to account for it as if it’s fait accompli.

The government even went shopping for different accounting standards it might use, Lysyk’s report says, trying out rules used for private businesses in the U.S. because they seemed friendlier. Consulting firm Deloitte told the government this was OK, a position it repeated at the government’s request on Tuesday after Lysyk released her report.

Maybe reasonable accountants can disagree about this. But the ground they’re fighting over is whether the trick the Liberals used to keep the **debt** off the government books at a cost of billions of dollars is an acceptable trick, not whether they’re keeping the **debt**off the government books or whether it’s going to cost billions of dollars.

Which is just what you want from your government, right? Ottawa Citizen

- **Length:** 847 words
- **Tone:** Neutral
- **Reach:** 159480
- **Illustration:** Brian Thompson, Postmedia News / Hiding billions the **Ontario government** is borrowing to lower electricity bills for a few years will cost hydro users an extra $4 billion, the province's auditor general says.;

Liberals costing us extra $4 billion in interest costs

- **torontosun.com**
- **Tue Oct 17 2017**
- **Section:** Regional
- **Byline:** Antonella Artuso Toronto Sun
- Permalink

The Kathleen Wynne’s Liberal government is flouting accounting rules and taking on an unnecessary $4 billion in extra borrowing costs — to be applied to future electricity bills — to keep the true cost of its Fair Hydro Plan buried, Ontario Auditor General Bonnie Lysyk says.

A battle between accountants is not usually the stuff of Hollywood blockbusters, but Queen's Park was enthralled Tuesday as Lysyk and her experts faced off against the government and its counter experts.

While the Liberals tried to minimize the conflict as a mere accounting dispute, Lysyk said what was at stake was far more important as the financing manoeuvre allows the government to write its own budget bottom line.

"This is wrong," she said.

Under public pressure to respond to soaring hydro costs across Ontario, Wynne earlier this year released a plan that reduced bills by 25% on average, and promised to keep increases to the rate of inflation for four years — in part by eliminating the provincial portion of the HST from bills.

The government also announced that it would open contracts it had signed with private power suppliers, such as Bruce Nuclear and wind and solar providers, and refinance those usually 20-year deals over a longer period to lower bills in the short-term.

However, instead of borrowing that money itself — the provincial government gets a really good rate — the Wynne team decided to ask Ontario Power Generation to borrow it at higher rates.

The difference adds up to an extra $4 billion in borrowing interest costs — for a total cost of $39.1 billion for the hydro plan — but means that extra red ink doesn't show up on the province's books, Lysyk said.

Internal government correspondence shows that was the goal of the financing plan, she said.

Energy Minister Glenn Thibeault said the government made a policy decision that the cost of refinancing electricity assets would be borne by the hydro ratepayer, not taxpayers, as has been the historic practice.

The government's accounting method has been reviewed and approved by senior staff from several ministries, the cabinet office, Ontario Power Generation, the Independent Electricity Operator, and third-party consultants, including KPMG and Deloitte, he said.

Treasury Board President Liz Sandals noted that they also took hydro relief programs off of the electricity bill, and placed them on the government books, because that was a more appropriate way to record the expense.

"There was no fast ones being pulled at all," Thibeault insisted.

The government is now estimating the cost of the Ontario Fair Hydro Plan (OFHP) at

less than $20 billion.

Lysyk said she consulted with auditor generals from across Canada, and attending in support at her media conference was Tim Beauchamp, the recently retired director of the Canadian Public Sector Accounting Standards Board.

The provincial government's method of accounting, a first in Canada for any government, is not yet carved in stone and the $4 billion can be saved, Lysyk said.

"There's still time to fix it," she said.

What the opposition parties had to say

The Ontario Liberal government "cooks the books" — spending up to $4 billion more than necessary to hide the true cost of its latest hydro scheme, Progressive Conservative Leader Patrick Brown says.

By structuring the cost of the Ontario Fair Hydro Plan (OFHP) in such a way that it was off the government books — adding to borrowing costs but not showing up as more red ink in the provincial budget — the Liberals were essentially forcing taxpayers to fund their re-election campaign, he said.

"This is cynical politics at its worst, making up their own rules, charging Ontario families more to serve the partisan interests of the Liberal Party," Brown said, shortly after a damning auditor's report was tabled in the Ontario legislature Tuesday.

The Ontario Liberals, who ran a budget deficit for several years after the 2008-09 recession, announced in their spring budget that the books will be balanced for the upcoming fiscal year.

Provincial voters go to the ballot box this June.

NDP MPP Peter Tabuns, who also sided with the auditor general's view that this type of accounting was wrong, said the government was attempting to book as an "asset" its ability to charge future hydro ratepayers more than their power will be worth.

"This was one of the most shameless displays I've ever seen from Liberal cabinet ministers," Tabuns said, after Energy Minister Glenn Thibeault and Treasury Board President Liz Sandals defended their financing decisions. "They're trying to make this whole thing to be a fight over accounting. The guts of this is that the government is spending $4 billion more in interest that we're going have to pay for in our hydro bills, so they can move these numbers off their books so they can make it look like they're not running a deficit."

What the Auditor General of Ontario Bonnie Lysyk says:

Kathleen Wynne government's complex financing for Ontario Fair Hydro Plan (OFHP) needlessly dumps up to $4 billion more in borrowing interest costs on Ontarians.

Only reason to spend extra $4 billion is to ensure that the expense doesn't impact government's surplus and deficit figures.

No government in Canada has ever used this method of accounting before, like booking credit card **debt** as an asset. The government books should reflect the costs of its policy decision — about $2.5 billion a year until 2027.

Ministry of Energy gave law firm $500,000 retainer to go through its OFHP e-mails, requested by the auditor, and still haven't turned over everything even though other energy agencies have. Government spent at least $2 million on outside advisors to design this financing structure.

Total bill for OFHP — $39.4 billion over 30 years.

What the **Ontario government** and energy agencies say:

Total bill for OFHP will be under $20 billion, down from an estimate of $27 billion in March.

Auditor's e-mail request pulled over 100,000 e-mails, so lawyers needed to go through them to ensure they were on topic. About 7,000 have been turned over already.

Financing decision was based on government policy to make sure hydro ratepayers, and not taxpayers, covered the cost.

Similar accounting methods are used by many energy agencies, here and in the United States.

Government enlisted advice of many experts, including KPMG, on the structure of the accounting.

- **Length:** 1034 words
- **Tone:** Neutral
- **Reach:** 326700

Government and auditor general at odds over size of Ontario's deficit

- **thestar.com**
- **Thu Sep 7 2017**
- **Section:** News | Toronto Star
- **Byline:** Robert Benzie

It's not quite Mayweather-McGregor, but the stakes are high in the accounting slugfest between the provincial government and the auditor general.

Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals - and the bureaucrats in their ministries - say Ontario's deficit last year was $991 million, while auditor general Bonnie Lysyk maintained it was $2.44 billion.

At the same time, the province said the net **debt** was $301.6 billion, while Lysyk calculated it was $314.1 billion.

The actuarial dispute - a reprise of last year's tussle (www.thestar.com) between Queen's Park and the fiscal watchdog - stems from a difference of opinion over whether the government should include on its bottom line its share of assets from the teachers' and public servants' pension funds that it co-sponsors.

Sandals on Thursday shrugged off Lysyk's accounting (www.thestar.com) interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

"The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

"Quite frankly, I don't think the public is terribly hung up on accounting disagreements."

Sousa noted the books are balanced this year, but he refused to bite when asked what plans the Liberals have for an expected budget surplus next spring before the June 7 election.

A government-appointed panel of accounting experts concluded earlier this year that Lysyk erred (www.thestar.com) when she claimed the province couldn't count as assets the taxpayer-funded surpluses in the co-sponsored Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan.

Still, the auditor general (www.auditor.on.ca) , who has sparred with the government for years on myriad issues, stuck to her guns.

"The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so," she said.

Lysyk warned that her next target will be an audit of the government's 25-per-cent electricity rate cut, which "may lead to a larger understated deficit and net **debt** next year."

A special report on the scheme will be released this fall.

- **Length:** 393 words
- **Tone:** Negative
- **Reach:** 999000
- **Illustration:** Finance Minister **Charles Sousa** said Thursday the books are balanced this year, but he refused to say what plans the Liberals have for an expected budget surplus next spring before the June 7 election.

Is Ontario deficit really $991M?

- **Toronto Sun**
- **Fri Sep 8 2017**

- **Page:** A6
- **Section:** News
- **Byline:** Shawn Jeffords
- **Source:** The Canadian Press

The **Ontario government** posted a $991-million deficit last year - and said Thursday it had beat its 2016 projections by $3.3 billion.

But the province's auditor general says the Liberal government is "significantly understating" its deficit, which she pegs at $1.4 billion.

Ontario Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals made the announcement Thursday as they released the province's 2016-2017 public accounts.

The government attributes the results to billions of increased revenue, a cut in program spending, and smaller interest costs to service the province's **debt**.

In 2016, Ontario's auditor general Bonnie Lysyk questioned the province's decision to include a pair of public pensions - the Ontario Public Service Employee's Union Pension Plan and the Ontario Teacher's Pension Plan - as assets on its balance sheet. As a result, she has offered a "qualified" opinion on the financial statements two years in a row.

Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble.

"The public wants to know, are you managing your deficit?" she said. "Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards."

- **Length:** 213 words
- **Tone:** Neutral
- **Reach:** 171076
- **Illustration:** / SOUSAAnnouncement; / SANDALS"Qualified";

Ontario says 2016 deficit was $991 million, beating target by $3.3 billion

- **National Post**
- **Thu Sep 7 2017**
- **Section:** PMN Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - The **Ontario government** posted a $991-million deficit last year - beating its 2016 projections by $3.3 billion.

Ontario Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals made the announcement today as they released the province's 2016-2017 public accounts.

The government attributes the results to billions of increased revenue, a cut in program spending, and smaller interest costs to service the province's **debt**.

Ontario's auditor general has questioned the province's decision to include a pair of public pensions as assets.

But the government maintains it is following established accounting practices by doing so.

Sousa says the province will balance its budget in 2018-2019 ahead of next spring's provincial election.

- **Length:** 110 words
- **Tone:** Neutral
- **Reach:** 607500

Hansard Scan

- **8** or **19%** of the questions directed to the Minister of Finance in the fall 2017 session of the legislature were about fiscal accountability.
    - **7** of these questions cited a report or commentary by the FAO.
    - **5** of these questions cited a report by the Auditor General.
    - The Minister of Finance was asked **3** questions on fiscal accountability following the release of the Auditor General's report on the Fair Hydro Plan.
- The Minister received **1** question on the privatization of public assets and the partial sale of Hydro One, following news about the Canadian Union of Public Employees' (CUPE) lawsuit.
- **5** or **12%** of the questions directed to the Minister of Finance in the fall 2017 session of the legislature were about the government's fiscal policies.

Ontario Hansard - 11-September2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: Good morning, Speaker. My question is for the finance minister. For years, this government has been presenting our Legislature with made-up finance numbers. Whether it was from the independent experts or the government's own confidential cabinet documents received in the gas plant scandal, it's been proven that the numbers they present to the public are simply made up to fit their story. Last week, the Financial Accountability Officer—

The Speaker (Hon. Dave Levac): The members will lose their props shortly and actually get warned if they do it again.

Interjection.

The Speaker (Hon. Dave Levac): You want to make an excuse? You know what I'm talking about, and you know you're not supposed to do that.

Carry on.

Mr. Victor Fedeli: Last week, the Financial Accountability Officer provided irrefutable evidence they were using "unlikely assumptions" for debt reduction claims. He projects a "steady deterioration in the budget deficit over the next five years." All of their made-up numbers don't come anywhere near historical numbers. It's only wishful thinking.

I would ask the minister, if he can't present the province's finances with integrity—

The Speaker (Hon. Dave Levac): Thank you.

Minister of Finance?

Hon. Charles Sousa: Let me begin by thanking the Financial Accountability Officer for the work he does, and their department, recognizing their sensitivity analyses that they provide.

Every year, similar accusations are made by the member opposite, and every year, we exceed our targets. Every year, we exceed our targets, and public accounts reaffirms that. We beat our deficit by $3.3 billion this year. We are the leading jurisdiction in North America when it comes to economic growth. Our unemployment rate is at 5.7%. We're on track to balance the budget—as we said we would—this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the finance minister: As if the blistering commentary from the FAO wasn't enough, the Auditor General has now weighed in. She said that this government's annual deficit is understated, net debt is understated and accumulated debt is understated. We're not talking nickels and dimes here. The auditor says that our deficit is $1.5 billion more and our net debt is $12.5 billion more than reported. For the second year in a row, the auditor has said, "Based on the ... evidence ... the statements are significantly misstated."

Both of the legislative officers have told us that this government's numbers can't be trusted. I ask the minister: Why does it always take the Financial Accountability Officer, the Auditor General or the OPP to get to the truth in Ontario?

Hon. Charles Sousa: Investors around the world are investing in Ontario for a reason. They recognize that Ontario's economy is growing. They're recognizing that our fiscally responsible approach to growing the economy, investing in things that matter, is working. And our plan is working. We're borrowing $30 billion less than we had anticipated. Our net debt to GDP is lower now than was anticipated and is tracking to go further down.

As we produce and as we move forward, we're taking every necessary step to grow the economy. And as we grow the economy, it enables us to source more opportunity to invest in things that matter to Ontarians, things that that member and his party opposite have voted against. They voted against providing more free tuition for our students. They voted against the very nature of trying to provide extended pharmacare for every young person under 25. These are the reasons we're able to do that: because we've balanced the budget and we're taking the steps necessary to invest in infrastructure. That makes us competitive and enables us to balance the books all the while.

Ontario Hansard - 21-September2017
PRIVATIZATION OF PUBLIC ASSETS

Mr. Patrick Brown: My question is for the Minister of Finance. CUPE announced this morning that they are appealing the ruling in their lawsuit against the government. That, of course, would be the lawsuit that alleges that the sale of Hydro One was motivated by improper and ulterior purposes. CUPE alleges that it does not benefit the people of Ontario. In a direct quote—this is about "lining the pockets of political cronies on Bay Street and funnelling money" into party coffers.

Mr. Speaker, 80% of the province is against this fire sale of Hydro One. Was the government, according to CUPE, motivated by improper and ulterior purposes?

Hon. Charles Sousa: The answer is no, Mr. Speaker.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Patrick Brown: Again to the minister: One of the government's defences was that they were going to be using the fire sale of Hydro One for infrastructure. What's really interesting is that the member for Dufferin–Caledon exposed yesterday that 20% of the infrastructure budget was not used. That added up to $3.3 billion. Coincidentally, that $3.3 billion is pretty close to what the Hydro One sale was supposed to net for infrastructure—an interesting coincidence.

My question is pretty simple. Mr. Speaker, to the Minister of Finance: Why sell Hydro One for apparent infrastructure money if the Liberals weren't going to use it?

Hon. Charles Sousa: This province, under this government, over the last 10 years, has contributed more to our infrastructure spend than other governments combined over that history. We have put in our budget $190 billion over the next 13 years. That member opposite voted against those measures.

The law case that he makes reference to has been dismissed by the courts without merit. He knows that, and he's trying to infer something he knows is not true. What we're doing is stimulating growth, improving our economy and balancing the books, and we are making the investments necessary for our future competitiveness.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Patrick Brown: Mr. Speaker, again to the Minister of Finance—and I did not get a response on why the Hydro One fire sale funds were not used on infrastructure.

Fred Hahn from CUPE had a pretty good quote that I'll quote right here. He said, "The case is about more than the sale of Hydro One. It's about the government's responsibility to act in the best interest of its citizens. When a government abandons that responsibility, and does so to the benefit of their political party, they must be held accountable."

CUPE is right. There must be accountability. Will the minister admit that the sale of Hydro One was not about the best interests of the province of Ontario; it was about the Liberals trying to find funds to make up for their promises that they can't honour? This was not about the best interests of Ontario; it was about the best interests of the Ontario Liberal Party.

Hon. Charles Sousa: We are repurposing some of our assets, as all governments do over the course of their mandates, to try to ensure that we invest most appropriately in those measures for the benefit of our economy. That is in the best interests of Ontarians. Ontarians will remain the largest shareholder of a much more productive organization, reinvesting those proceeds into infrastructure—

Interjection.

The Speaker (Hon. Dave Levac): The member from Bruce–Grey–Owen Sound, come to order.

Finish, please.

Hon. Charles Sousa: We established the Trillium Trust to ensure that all those proceeds, dollar for dollar, get earmarked specifically for those investments. The member opposite knows that, and he voted against those measures.

We are going to continue to work in the best interests of Ontarians, and that is what's important. We are looking long-term, and we're not making these election-cycle decisions that this member opposite, who has no plan, who has offered nothing in return—

The Speaker (Hon. Dave Levac): Thank you.

New question.

Ontario Hansard - 03-October2017
GOVERNMENT FISCAL POLICIES (GOVERNMENT RECORD)

Mr. Arthur Potts: My question is to the Minister of Finance. In 2010, this government promised to eliminate the deficit and balance the budget by 2017-18. This was not very long

after the 2008-09 recession, which had very extremely negative impacts on countries around the world, and Ontario, of course, was not immune.

However, rather than slash the programs and services upon which Ontario families rely in order to eliminate the deficit, I am very proud of the fact that our government chose to build Ontario up. The investments that we have made in transit, schools, hospitals and education have led people to choose Ontario as their home now more than ever. And I, for one, am happy to see that there are more supports for municipalities. Ontario cities and towns are now receiving four times the level of support they got in 2003, more than $4 billion in support.

Can the minister remind the House how on this side of the House we've been able to invest in the people of Ontario for 14 years without the slashing and cutting that they would do on that side of the House?

Hon. Charles Sousa: I thank the member for the question. For the past 14 years, our government has taken a balanced approach to keeping Ontario at the forefront of a global economy. We managed our expenses and transformed how we deliver public services, making them more efficient and more effective.

This is the type of financial responsibility that the opposition doesn't understand. By investing in progressive policies, we're stimulating growth in our economy. We're making historic infrastructure investments: $20 billion into hospitals, $16 billion into schools, free tuition for our students and free pharmacare for our young people. Meanwhile, our program-expense-to-GDP is lean and lower than pre-recession levels.

Let me remind you: Under the previous PC government, Ontario taxpayers were paying 15 cents for every dollar earned just to service the debt. Now in Ontario we're paying only 8.4 cents, and next year it will be even lower. We've eliminated the deficit, we've balanced the budget and that means more money to invest in health care, education and other public services that—

The Speaker (Hon. Dave Levac): Thank you. Supplementary.

Mr. Arthur Potts: Back to the Minister of Finance: If you listen, Speaker, to what the opposition are saying, they want people to believe that we've made no advancements over the last 14 years. They would like people to believe we have had no improvements in businesses and no investments in industries like the tech sector and the STEM sector. They would want you to believe—

Mr. Victor Fedeli: They advanced, but they all advanced backwards. They advanced backwards.

The Speaker (Hon. Dave Levac): Too late. The member from Nipissing is warned.

Interjections.

The Speaker (Hon. Dave Levac): In case the member needs a reminder, we're into warnings.

Mr. Arthur Potts: They would want us to believe that Ontarians have not been working hard to grow this economy into one of the strongest in Canada and all of North America. It's hard to rectify that with what the Minister of Finance has just spoken about: how, under Liberal leadership, we have dug Ontario out of the recession, and how, because of this, we are now able to make very progressive investments in new policy that will attract foreign investment.

Can the minister tell us about the great progress that this side of the House has made over the last 14 years, to make Ontario the best place to create and grow jobs?

Hon. Charles Sousa: Minister of Economic Development and Growth.

Hon. Brad Duguid: I'm very proud to stand up today to say that we've worked tirelessly with our business community and Ontario workers to build Ontario up and to turn our economy into one of the strongest in Canada and North America.

Yes, we've weathered one of the worst recessions we've seen in recent memory. Since then, we've added 760,000 net new jobs. Since then, and for the last three years, we've been leading the G7 in growth. Since then, we've brought our unemployment rate down to 5.7%, the lowest in 16 years. Since then, we've invested $3 billion in partnerships with businesses, leveraging $27 billion in private sector investment, supporting 170,000 jobs and, just as importantly, we're now poised to lead in the new global economy.

We've transformed our economy; we're heading in the right direction—

The Speaker (Hon. Dave Levac): Thank you. New question.

Ontario Hansard - 05-October2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: My question is for the Minister of Finance. Last month, there were two

legislative reports on the state of Ontario's finances. They were described as blistering and scathing. Those descriptions, Speaker, are well deserved.

Both of the Legislature's—

Interjections.

The Speaker (Hon. Dave Levac): Stop the clock, please. The member from Beaches–East York, come to order.

As I indicated to both sides, I'm not going to tolerate the interjections, and you'll see how quickly I'll deal with them if I have to.

Continue, please.

Mr. Victor Fedeli: Both of the Legislature's independent officers openly challenged the ministry's credibility. The Financial Accountability Officer said that the minister is using "unlikely assumptions" to make his debt claims. In fact, they said that if any of these wild assumptions fall short, the government's targets would not be achieved. They particularly took issue with the government's overly optimistic growth projections.

If the FAO doesn't believe the minister's numbers, why should the people of Ontario?

Hon. Charles Sousa: Economists independent of government across Canada have cited this: Ontario is leading the way in economic growth in our country. The Conference Board of Canada has cited that we've outperformed and had the most transparent levels of reporting than any other government in Canada.

This member opposite continuously degrades and talks down the outstanding achievements of Ontarians and businesses in our province that are creating wealth, creating greater prosperity, and hiring for more jobs. We have the lowest unemployment of any part of this country, and we are overachieving every single year that we put forward our budgets, to the benefit of Ontario.

We've reduced the deficit to under $900 million just last year, and we're going for it: We're balancing the budget this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the minister: The FAO's comments were strong enough, but the Auditor General painted an even more damning picture of the minister's financial reporting. For the second year in a row, the auditor wouldn't sign off on the province's books without a big asterisk.

The auditor went further, stating flat out that the statements are "significantly misstated." She says our deficit last year was $1.4 billion higher than claimed, and our debt is a whopping $12.4 billion higher. She warned us and the markets and investors that we need to be able to rely on government figures being accurate, but "this year they cannot do so." That's her quote. You cannot rely on their numbers.

Again we ask—and I know they're belittling the auditor; I can hear their comments again. But we ask: If the AG and the FAO don't believe the minister's numbers, why should we?

Hon. Charles Sousa: Investors around the world believe our numbers. The people of Ontario and throughout Canada who buy our bonds believe our numbers. We have the highest liquidity of trade in bonds of any government across this continent, in fact.

Our debt-to-GDP has been reduced—and it continues to reduce—below 37%, again overachieving our targets. Our accumulated deficit—which is a representation of the historical activity of Ontario's budgets—today is at around 27%, the same as it was 25 years ago. Our interest on debt as a percentage of revenue today is 8%. When he was in power, when the Progressive Conservatives were in power, Mr. Speaker, it was 15% of our revenues.

We are overachieving, and we continue to do so. We are using the same standards as we've always done, including what the Auditor General has done even as recently as three years ago.

1050

The Speaker (Hon. Dave Levac): Final supplementary?

Mr. Victor Fedeli: Back to the minister: If the minister is comfortable using, "significant misstatements" and "unlikely assumptions," then it should be no surprise to hear what else he continues to claim.

They continue to say, "We're leading the G7 in economic growth." But Ontario is not number one, Speaker. There are 27 US states ahead of us.

The minister continues to claim that manufacturing exports are up, but StatsCan just last week reported that Ontario manufacturing sales suffered their largest decline in eight years.

Here are some of the recent headings: "July Trade Deteriorates"; "Exports Languish"; "Ontario Residents Hit by Manufacturing Downturn"; "International merchandise exports fell"; "Manufacturing sales slip."

Speaker, given all these examples, plus the Financial Accountability Officer's and the Auditor General's criticism, how can anyone trust anything this government says?

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please. Thank you.

Minister.

Hon. Charles Sousa: Mr. Speaker, facts do matter, and that side of the House—

Interjections.

The Speaker (Hon. Dave Levac): Well, we're there. From now on, we're going into warnings for those interjections. The member from Renfrew–Nipissing–Pembroke, come to order. You brought us to this point. Warnings are on.

Finish.

Hon. Charles Sousa: Mr. Speaker, facts matter. This member opposite is citing sources—

Interjection.

The Speaker (Hon. Dave Levac): The member from Leeds–Grenville is warned.

Carry on.

Hon. Charles Sousa: He's citing references from years past, recognizing that as of today, Ontario is ahead of the curve. Our unemployment rate is the lowest it has been in 16 years, at 5.7%.

That's not to say that we're not continuously looking at stimulating economic growth around all of Ontario, recognizing some regional disparities exist. That member opposite and that party voted against those measures that improve prosperity, stimulate new growth and continuously balance the books.

Ontario Hansard - 19-October2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Minister of Finance. This morning, we learned from the Financial Accountability Office that the government's debt

reduction claims are $6.5 billion off the mark. The FAO said that's equal to eliminating funding for 40% of Ontario's hospitals, to put it in perspective. They painted a bleak and stark long-term budget outlook for Ontario.

Meanwhile, the government continues to insist they're on track even though they use the same data the Financial Accountability Office used. The FAO clearly stated, "without an adjustment to Ontario's fiscal policy," we will see increasing budget deficits and higher levels of debt.

The people of Ontario clearly cannot trust anything this government says. Will the minister come clean about their debt claims and tell us what they plan to do to address these new concerns?

Hon. Charles Sousa: I appreciate the question. I appreciate the work done by the FAO in regard to looking long term, in terms of the demographic and challenges that not only Ontario—he makes reference to the fact that all OECD countries everywhere around the world are going to be facing these challenges.

We, too, came out with a long-term report last year recognizing these very issues. The FAO rightly states that we have to take measures and have to address these long-term challenges. It is exactly what it is that we're doing in our budgets today. We are looking long term in terms of the programs we put in place to support health care, to support education. In fact, universal health care that has been expanded to youth under 25 is part of that. The work that we're doing with pension reform is part of that, both of which that side of the House have actually declined to do.

We need to support these very measures. We need to manage our fiscal house. That's why we're balancing the books this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the minister: The FAO confirmed again this morning that their so-called balance is all with the one-time asset sales and other one-time revenues. But here's why what the Financial Accountability Office said today matters to families: The FAO says not meeting the debt targets means there will be "less fiscal room for spending on government priorities, such as health and education." The FAO also said that Ontario is less able to respond to unforeseen events, such as the next recession.

Interjection.

The Speaker (Hon. Dave Levac): The chief government whip is warned.

Mr. Victor Fedeli: Perhaps worst of all, the FAO says continuing on this course will unfairly shift the fiscal burden from baby boomers to younger Ontarians.

This week, two independent officers of the Legislature have disputed the Liberals' numbers. How can families ever trust anything this government says again?

Hon. Charles Sousa: We came into office recognizing that the recession had hit us hard, recognizing that the Conservative government federally doubled their debt, had almost the highest deficit in Canada's history under their watch, and we on this side of the House also recognize those challenges. It is why we stimulated growth, invested heavily in infrastructure to build our economy and support the people of Ontario.

Today, we're outpacing Canada and the G7 countries. Today, we have the lowest unemployment in 17 years. Today, 730,000 net new jobs have come to the province. Today, we are continuing to invest long term to address the very challenges that the FAO has rightly cited, ones that we accept and we are taking every step to manage going forward.

We are balancing. We're balancing the books this year. We're balancing the books next year and the year after that, and those members have voted against those measures.

Interjections.

The Speaker (Hon. Dave Levac): Just a little reminder: We're in warnings.

New question.

Ontario Hansard - 23-October2017
FISCAL ACCOUNTABILITY

Ms. Andrea Horwath: My question is for the Acting Premier. Thanks to the Auditor General, we now know that the Premier and her Liberal government are forcing Ontario families to pay $4 billion just to hide the damage that her hydro borrowing scheme will do in the long run. We know that she was warned about the cost, we know she was given other options and we know she went ahead anyway.

Can the Acting Premier tell us who made the decision to ignore staff warnings and push ahead with a $4-billion scheme?

Hon. Charles Sousa: Again, the premise of the question is erroneous. The estimation by the Financial Accountability Officer made reference to what he felt were estimated numbers based on estimated borrowings, which we're reminding everyone that that is not actually what has taken place. So the premise of the question is erroneous.

There is a plan before us which reduces hydro rates, electricity rates, for Ontarians across the province by 25%, enabling us to do so in a responsible manner, which the opposition have now declined.

The Speaker (Hon. Dave Levac): Supplementary?

Ms. Andrea Horwath: Speaker, I would trust the estimations of the FAO and the Auditor General much more than I would expect to trust the estimations of the government. If you recall, this government estimated a $40-million cost of the gas plants scandal, and that was $1.1 billion, so I'm not going to take their estimations; definitely not.

In addition to the $4 billion that this Premier spent to hide the real cost of her $40-billion borrowing scheme, they also forked over another $2 million to consultants to help design said scheme. Since they won't tell us about the $4 billion, will the Liberal government at least make these consultants' contracts public so Ontarians know who exactly it is that's advising the Premier and what direction she was given?

Hon. Charles Sousa: President of the Treasury Board.

Hon. Liz Sandals: First of all, I think it's important to understand that the numbers that the leader of the third party is throwing around were estimates of something or other—projections that came from the FAO. They were not documents that were ever presented to cabinet on which to base a decision. They were projections that came after the fact. They were not cabinet decision-making documents.

The decision that cabinet did make was an important policy decision to say that things that actually have to do with electricity production belong on the rate base, from an accounting and from a real perspective—a financial, fiscal plan perspective. Things which have social policy

impacts belong on the tax base. That's exactly what the accounting is based on, that policy decision to put electricity on the rate base.

The Speaker (Hon. Dave Levac): Final supplementary?

Ms. Andrea Horwath: I have not been gobsmacked in this place for a long time, but for a minister to get up and talk about estimations of "something or other" is pretty worrisome. For a governing party to do that is pretty worrisome.

We know that the Liberal government knew how much it was going to cost to hide the disastrous effect of their borrowing scheme from the public. We know that they knew it was going to cost Ontario families $4 billion to do, and clearly they just didn't care that they were going to spend $4 billion to cook up this scheme. We also know that the people of this province paid an additional $2 million for consultants to tell them how to pull it off.

Why is the Liberal government putting themselves and their party ahead of families once again? They're looking after their political interests, the interests of the Liberals and this Premier, instead of the interests of the families in this province, who are struggling just to make ends meet and pay their skyrocketing hydro bills.

Hon. Liz Sandals: Minister of Energy.

Hon. Glenn Thibeault: When it comes to our policy decision, we actually made a decision that helps every single family in this province by reducing their electricity bills by 25%. Then we went even further: We brought forward our social programs, the OESP program and the RRRP program, for those folks who live in rural or northern parts of our province. They're going to see a 40% to 50% reduction on their bill. That's the policy decision that we made as a government. We made sure that we kept electricity generating assets on the electricity side, and those social programs that I talked about, we pulled those off of the rate base to lower the rates even more and we put that on the tax base.

When it comes to putting families first, it's this government that does so. It's this government that brought forward the reduction, and it's this government that continues to bring forward plans and policies that will—

Interjection.

The Speaker (Hon. Dave Levac): The Member from Renfrew–Nipissing–Pembroke, second time.

Wrap up, please—one sentence.

Hon. Glenn Thibeault: Thank you, Mr. Speaker. It is this government, not the opposition, that is making a difference in the lives of families in this province each and every day.

Ontario Hansard - 23-October2017
FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTABILITY)

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Acting Premier. Under the Fiscal Transparency and Accountability Act, the finance minister is required to provide a fall economic statement. Over the last 30 days, we've all heard the warnings made about this government's documents. The Legislature's Financial Accountability Office says the budget will not balance because the numbers are based on "unlikely assumptions." Last month, the Auditor General said this government has "significantly misstated" the numbers for two years running. Last week, the AG said the government "is making up its own accounting rules."

To the Acting Premier: Is there even a remote chance we're going to see any numbers we can believe?

The Speaker (Hon. Dave Levac): Acting Premier and Minister of Finance.

Hon. Charles Sousa: I reject the premise of this question and the notion which the individual is trying to also reflect. The fact is that Ontario, by all accounts, is leading Canada. We have the lowest unemployment in 17 years, almost 800,000 net new jobs from the depths of the recession. We've been very open and transparent and we've beaten our targets consistently, year over year, as attested by public accounts, which the Auditor General does confirm.

The member opposite may talk about expectations and exaggerations. We deal with the facts here, and we are exceeding and delivering for the people of Ontario.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the Acting Premier. Well, that's certainly not what the Auditor General told us last week.

The transparency act also requires the finance minister to release August and February reports every year, but, sadly, this minister has missed issuing almost all of them since his appointment. Considering the lack of trust in this government's numbers, we can see why they choose to snub their nose at our laws.

The minister is also required to publish a pre-election finance report, to be reviewed by the Auditor General. The government must provide detailed accounts, the very numbers that the Financial Accountability Officer says would "not be achieved," the very numbers the Auditor General says we "cannot rely on."

Will the government produce a pre-election report? Will there be any numbers in it we can actually believe?

Hon. Charles Sousa: Mr. Speaker, this is a good question, and I'll tell you why. That party, when they were in power, gave us a bogus budget that contained a $5.5-billion—

Interjections.

The Speaker (Hon. Dave Levac): Come to order.

Hon. Charles Sousa: Because of their practices in the past, we passed a law requiring that all governments, going forward, must be open and transparent and deliver those very opportunities for the entire province to see before the next election. We are doing that. The fall economic statement is going to be delivered very shortly as will the future reports that are being questioned here.

1050

The Speaker (Hon. Dave Levac): Before I turn to the member, I would ask him to listen.

Final supplementary?

Mr. Victor Fedeli: Again to the Acting Premier: The two reports aren't the only documents the members of the House are waiting for, Speaker. The government has withheld thousands of emails from the Auditor General and spent $500,000 on hired lawyers to stall their release. The Auditor General and this Legislature are entitled to those documents—not some of them, Speaker; all of them—and we want them now. Not only that, but the media were told in a response to a freedom of information request that no documents on consultants exist, when clearly they do.

Speaker, to the Acting Premier: The last Liberals that said there were no documents are now in a courtroom down the street. Is that where this one is heading too?

Hon. Charles Sousa: Minister of Energy.

Hon. Glenn Thibeault: Our government remains committed to being open and transparent and continues to co-operate—

Interjection.

The Speaker (Hon. Dave Levac): The member from Leeds–Grenville will withdraw.

Mr. Steve Clark: Withdraw.

The Speaker (Hon. Dave Levac): Carry on.

Hon. Glenn Thibeault: We continue to co-operate with the Office of the Auditor General. For

example, the Independent Electricity System Operator has so far provided 1,200 records to the Auditor General. OPG has provided hundreds of records. The Ontario Financing Authority has provided 3,242. The Treasury Board has provided thousands of records. We've provided 13,212. In this process, Mr. Speaker, and throughout everyday operations, we're adhering to all document retention standards.

Additionally, the ministry has informed me that we're continuing to release additional information to the Auditor General, and we're doing this because we understand the importance of providing the auditor with everything that she has asked for. The ministry has been regularly providing the Auditor General with additional responsive documents each week, and we'll continue to adhere to this process.

Ontario Hansard - 25-October2017

FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTING PRACTICES)

Mr. Peter Tabuns: My question is to the Acting Premier. This government keeps insisting that

it must spend an extra $4 billion on a complicated alternative financing scheme because it is the only way to keep ratepayer and taxpayer costs separate. But nearly 20 years ago, the government established the Ontario Electricity Financial Corp. as a way to separate taxpayer and ratepayer funds.

The problem for this government is that the OEFC debt stays on the government's books, and this government wants to keep deficits and debt off the books to make the Liberal Party look better. Will the government admit that it is wasting $4 billion in ratepayer money for no other purpose than to help the Liberal Party?

Hon. Deborah Matthews: The Minister of Energy.

Hon. Glenn Thibeault: I'm very pleased to rise and talk about the policy decision that we made as a government. We all know that the fair hydro plan is actually reducing the rates by 25% for every single household in this province and for 500,000 small businesses and farms. That policy decision made sure that we actually looked at where the borrowing was coming from, and then made sure that the borrowing stayed within the electricity system.

We actually did pull costs from the rate base and put them onto the tax base. Those were the social programs. The Affordability Fund, which we announced yesterday, is a $100-million fund which is going to help tens of thousands more people in this province with their electricity bills. We're going to continue to work for the people of Ontario and continue to provide the relief that we know they wanted and asked for.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Peter Tabuns: Again to the Acting Premier: The government could have used normal public sector accounting to achieve exactly the same policy goals, and it would have cost ratepayers $4 billion less. They could have used the OEFC to administer the program and keep ratepayer and taxpayer funds separate.

The only reason to use this $4-billion alternative financing trick is to hide the true cost of the government's hydro borrowing scheme from the public. Will the government help ratepayers instead of the Liberal Party and stop this needless waste of $4 billion today?

Hon. Glenn Thibeault: Minister of Finance.

Hon. Charles Sousa: In regard to the OEFC, it is still involved. As the member may or may not know, during our recent transaction to broaden the ownership of Hydro One, it paid down OEFC debt, in order to accommodate our work.

Furthermore, we inherited a stranded debt of almost $28 billion from the opposition, which was not a marketable opportunity, unlike what is happening here in this instance.

As we proceed forward, we are taking a proportionate amount off the tax base and we have taken a proportionate amount off the rate base, as is normal under these circumstances. OEFC is engaged, and it's doing its part.

Ontario Hansard - 15-November2017
FISCAL ACCOUNTABILITY (ONTARIO ECONOMY)

Mr. Victor Fedeli: My question is for the Premier. The fall economic statement presented yesterday in this House is nothing more than a pre-election—

Interjection.

The Speaker (Hon. Dave Levac): Stop the clock. The Minister of Tourism, Culture and Sport will come to order. The next one gets us to warnings.

Finish, please.

Mr. Victor Fedeli: This is a pre-election house of cards. As we dig deeper into the numbers, it's clear that the Auditor General and the Financial Accountability Officer are absolutely correct not to believe them.

By the government's own admission, the economy will underperform many private sector forecasts for 2017, which had growth at 3% or higher. Despite the government's narrative, it doesn't line up with the fact that growth is slowing as we speak. Yet they're still predicting a $10-billion revenue increase this year. None of that adds up.

To the Premier: Why do they continue to thumb their nose at the Legislature's independent experts, who say that the budget is not balanced?

Hon. Kathleen O. Wynne: Here are the facts that we are dealing with in Ontario.

Our economy has grown faster than all G7 countries over the past three years, and 800,000 net new jobs have been created since the recession.

Our unemployment rate is at a 16-year low, and it has been below the national average for 31 straight months.

We've beaten our deficit targets eight years in a row, and our debt-to-GDP ratio is projected to fall from around 40% to 37.8%.

The fact is that Ontario is doing very well. We are leading economic growth in this country.

What the member opposite fails to acknowledge is that there is more to be done, which is why our plan to raise the minimum wage, to ensure equal pay for equal work—those are the pillars of a fair society that apparently the member opposite is not interested in supporting.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Supplementary.

Mr. Victor Fedeli: Back to the Premier: Well, again, none of that is agreed to by the Auditor General or the Financial Accountability Officer. By almost every metric, this government has underperformed since the 2017 budget. Revenues are up only $115 million—nowhere close to their forecast—yet expenses are up $215 million since the budget. Personal income tax and health premium revenue is down $1.8 billion since the budget, yet they still say that revenue will increase by $10 billion this year.

We have rosy, glowing predictions from the government, but in reality the numbers just aren't there. The truth does not fit with their narrative.

Why does it always take the Auditor General, the Financial Accountability Officer or the OPP to get to the truth in this government?

Hon. Kathleen O. Wynne: The reality is that corporate revenue is up. The fact is that our economic growth is leading the country.

Yesterday, this party across the floor promised that they would roll back the $15 minimum wage. They would kick the increase to $15 over a four-year phase-in—

Interjections.

The Speaker (Hon. Dave Levac): Your decision is made. We're in warnings.

Hon. Kathleen O. Wynne: They would kick the increase to $15 an hour down to a four-year phase-in, which is tantamount to denying that increase. It is tantamount to not allowing people to catch up. The fact is that, although the province is doing well, not everyone in the province—

Interjections.

The Speaker (Hon. Dave Levac): The member from Renfrew–Nipissing–Pembroke and the member from Leeds–Grenville are warned. If you don't get the message, I'll give it to you.

Final supplementary.

Mr. Victor Fedeli: Back to the Premier: The experts have been clear that the government has been using one-time revenue to fluff up their budget numbers.

Money from the Hydro One sale? That's over now. From land transfer tax? The housing market is cooling. From federal transfers? That fluctuates every year.

Now, without these massive, one-time revenues, the government still says annual revenue growth will be 4% over the next four years, but the Financial Accountability Officer says it will average just 3%. It doesn't sound like much, but those are billions of dollars apart. None of what they're saying adds up whatsoever.

Speaker, if the independent legislative experts don't believe this government's numbers, why should any Ontario families?

Hon. Kathleen O. Wynne: Minister of Finance.

Hon. Charles Sousa: The member opposite maybe didn't read this fall economic statement, because we revised our numbers from 2.3% real GDP to 2.8% real GDP, which is lower than independent economists predict for the continuing growth of our economy and for the province of Ontario. In fact, HST has gone up, showing consumer confidence. Business investment is going up, showing business confidence, Mr. Speaker. Our accumulated deficit over the past 25 years is lower today than it has ever been, and our debt-to-GDP is improving.

The member opposite is making reference, but he is not acknowledging that the independent economists, the independent review and the investors are showing confidence in our province because we are winning and we are supporting opportunity at the same time, creating fairness so that every individual in this province does get a fair wage and businesses get their fair share. We are all improving our economy and we are working together, Mr. Speaker.

Ontario Hansard - 15-November2017
GOVERNMENT FISCAL POLICIES (GOVERNMENT RECORD)

Mr. Shafiq Qaadri: My question is to the Minister of Finance. All Ontarians, I think, can be encouraged by yesterday's release of the fall economic statement, which demonstrates that our government is working to create fairness and opportunity during this period of rapid economic change.

It's also clear that our path to balance is on track. Most importantly, unlike the approach of other parties, this is not being achieved by slashing and burning the services that people depend on, and it's being supported by a thriving economy.

As you will know, Speaker, businesses have created more than 800,000 net new jobs since the 2008 recession, and 300,000 jobs are expected by 2020. Real GDP is now forecast to grow at a healthy 2.8%, a very substantial increase from the previous budget projection.

A balanced budget allows for more money to invest in things that matter to everyone in Ontario: schools, hospitals, roads, bridges and more.

To the minister: Est-ce que vous pouvez élaborer sur le travail et les mesures que notre gouvernement fait?

Hon. Charles Sousa: Thank you for the question from the member from Etobicoke North. Our government is delivering a balanced budget. We've beaten our fiscal targets for the eighth year in a row. Net debt to GDP has improved to 37.3%. Our strengthening investments continue to attract private and foreign direct investment.

The numbers show that our policies are working. Real GDP growth is above projections. In fact, over the last three years, Ontario's real GDP growth exceeds that of all G7 countries. Our businesses have created over 800,000 net new jobs, as indicated, bringing our unemployment rate below the national average for 31 straight months. We've managed growth in program spending, making Ontario the leanest government in Canada.

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Mr. Speaker, Ontario has come out of the recession stronger but we know there is more to do. We want to ensure everyone in Ontario benefits from our strong economy. That's why we're taking steps to support workers and their families to create more fairness and opportunity for all hard-working Ontarians.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Shafiq Qaadri: Thank you, Minister. I think it's clear that our growing economy, together

with a balanced budget, is creating more and more opportunities for businesses and individuals across Ontario.

On the ground in my own riding of Etobicoke North, this is reflected, for example, by the $400-million expansion of Etobicoke General Hospital which, I would respectfully remind the House, is also part of the William Osler system.

We know, Speaker, that policies which build our people up are what matter most to Ontarians. That's why I'm proud to stand with a party that's increasing the minimum wage to $15 an hour, coming up shortly. We know that hard-working people are struggling to put food on their tables and they cannot wait for years for this pay increase.

We know that students—over 200,000 of them—will be benefiting from free tuition.

And Speaker, as a doctor, I have to support OHIP+, the greatest expansion of pharmacare in a generation, as was mentioned.

Speaker, we know our historical investments to infrastructure—$190 billion over 13 years—will spur economic growth. Can the minister please detail more of these initiatives?

Hon. Charles Sousa: Thank you again for the question. We're building a stronger, fairer Ontario. We're designating another $155 million in supports for our seniors strategy, so our seniors can live independent, healthy and active lives. We're helping to build more competitiveness in our business environment by providing another $500 million in new initiatives for small business. We're cutting WSIB costs and reducing red tape further. It includes more incentives to businesses to hire young people—$124 million over three years—as well as new grants to encourage employers to hire apprentices, up to $19,000 per apprentice. Mr. Speaker, we're creating the third pillar to our post-secondary education system to support our indigenous institutes. We've also announced $5 million in extra dollars for the north through our Ontario Municipal Partnership Fund. This is our balanced approach to create fairness and opportunity for the people of Ontario.

Ontario Hansard - 27-November2017
GOVERNMENT FISCAL POLICIES

Mr. Victor Fedeli: My question is for the Minister of Finance. Life is unaffordable in Ontario. Families are working harder, paying more and getting less than in any other province in the country. That's why the government needs to do more to alleviate the tax burden on the middle class.

This weekend, the Ontario PC Party and our leader, Patrick Brown, laid out our plan: the People's Guarantee. One part of that guarantee was a 22.5% cut to income taxes for the middle class—

Interjections.

The Speaker (Hon. Dave Levac): Stop the clock. So that all members realize, I have not changed the direction that I'm trying to bring our House to. Today is no different. If I'm getting the signals that that is going to change, I will start with warnings very quickly, just to set the tone.

Please carry on.

Mr. Victor Fedeli: Mr. Speaker, an Ontario PC government would bring real change for middle-class families. Why won't this Liberal government?

Hon. Charles Sousa: Mr. Speaker, it's a real honour to be able to stand before you and the rest of this House to acknowledge the tremendous work that Ontarians have done to bring our economy to where it is today, and recognizing that it has only been possible because of the stimulus and the balanced approach that we've taken to ensure that we recover from this global economic downturn that has been sustained for a long period of time—and, yet, Ontario leads Canada, it leads the G7, and for that matter, Mr. Speaker, we are continuing to create more jobs than ever before.

The member opposite, the critic, and the Leader of the Opposition have long advocated for balanced budgets, and Mr. Speaker, the largest deficit in Canadian history was voted on by the Leader of the Opposition—$16 billion. That is their plan. They're taking the province into deficit going forward.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: I'll send a copy of the plan over to you and you can have a real look at it.

Ontario used to be a province where if you worked hard, spent wisely and saved diligently, a family could get ahead. They could build a better future for their children. But that's not the case

in Ontario any longer, Speaker. Families are struggling and some are falling behind. They need help. That's why we know Ontario families need lower taxes—

Interjections.

The Speaker (Hon. Dave Levac): Excuse me. Stop the clock. We're in warnings.

Carry on.

Mr. Victor Fedeli: —22.5% lower income taxes for middle-class families, Speaker, would make a significant difference in the lives of those trying to get ahead. But we can't trust the Liberals to make life more affordable. Why should anyone in Ontario trust them?

Hon. Charles Sousa: Mr. Speaker, this government, under the leadership of Premier Kathleen Wynne, has instituted progressive measures while at the same time managing our expenses. We are providing free tuition for students, free pharmacare for everyone under the age of 25 and 100,000 more child care spaces.

The member opposite is advocating for cuts—cuts to education and cuts to health care, Mr. Speaker; that is their plan. We on this side of the House will take a balanced approach to ensure that we can afford the things that matter to Ontarians, while that side is cutting revenues and cutting across the board the very services that matter to us. We on this side of the House will always look after the people of Ontario.

The Speaker (Hon. Dave Levac): Final supplementary.

Mr. Victor Fedeli: Back to the minister: That is a complete fabrication, Speaker—

Interjections.

The Speaker (Hon. Dave Levac): The member will withdraw.

Mr. Victor Fedeli: Withdraw.

For 14 years, we have seen Liberal insiders get rich at the expense of the people of Ontario. While the government lined the pockets of high-priced executives, middle-class families struggled. It's not their imagination. Middle-class wages have stagnated for 14 years while Liberal taxes and fees continued to rise. Thanks to this government, middle-class Ontario is poorer than the average Canadian.

So, Mr. Speaker, we have to ask: When did the Liberals decide they were the government for the insiders and no longer for the people?

Hon. Charles Sousa: Page 76 of their plan made it very clear, Mr. Speaker: Over $12 billion is what's being cut across the board from the people of Ontario. So the question becomes, what are you going to cut?

Furthermore, they're making decisions only on election cycles. They don't want to go long-term or look beyond. We've got to have a long-term vision on things that matter—

Interjections.

The Speaker (Hon. Dave Levac): You may choose your last comment that could get you the warning. When I stand, you stop.

Finish, please.

Hon. Charles Sousa: We've created over 800,000 net new jobs, primarily in the private sector. The economy is growing. I recognize that many across the province don't feel the same benefit as others with our prosperity. We need to do better, and I said so in the fall economic statement. I hope the member opposite will approve and support the fall economic statement. That's a real plan for the real people of this province to make sure they get real prosperity going forward.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Interjections.

The Speaker (Hon. Dave Levac): You can take the risk, if you'd like to keep talking.

New question.

Ontario Hansard - 27-November2017
GOVERNMENT FISCAL POLICIES

Mr. Victor Fedeli: My question is for the Minister of Finance. First they disparage the Auditor General, then they disparage the Financial Accountability Officer, and now they disparage Kevin Page, the former budget officer.

In the 1990s, Ontario's average income was 10% above the national average. But in 2012, income in Ontario fell below the national average for the first time ever. In fact, between 2005 and 2015, Ontario families saw the slowest rate of income growth of any province in Canada. Once the envy of the country, middle-class Ontarians now struggle. They work harder, pay more and get less under this Liberal government.

Why has the Liberal government spent 14 years allowing middle-class families to struggle to keep their heads above water?

Hon. Charles Sousa: That is rich coming from that side of the House. We're providing for an increase in the minimum wage that they are now denying the people of Ontario. Stand up and fight for the people of Ontario. We have a 5.9% unemployment rate, the lowest it has been, and it has been below the national average for 31 months.

We will continually support everyone in this province for the sake of the families of this province. They're putting at risk their livelihood. They are instituting a much more expensive carbon tax to the people of Ontario. We recognize that that will put us in harm's way. We need to be competitive for businesses and competitive for the people of Ontario, where everyone should share in that growth. That is why we are increasing minimum wage to $15, and they are not.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the minister: This government brought in some of the largest tax increases in Ontario's history. Between the health tax, the HST and other fees, the Liberals have made life unaffordable.

Every day, families email and call our offices. They share their stories and tell us they just don't have any money left. That is why we can't trust this Liberal government. That is why a PC government will reduce income taxes for the middle class, that's why a PC government will increase the Ontario Sales Tax Credit, and that's why an Ontario PC government will make life more affordable for Ontario families. That's what is fair. Why won't the Liberals make life affordable for Ontario families?

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Hon. Charles Sousa: We know their plan in the past and we hear it now going forward. It's not much of a plan because what they're going to do in order to achieve deficits, no less—they're promoting deficit spending going forward. We are going to balance this year, next year and the year after that. In order for them to achieve even a little bit of that deficit that they're proposing, they're going to go back to firing nurses, closing hospitals, reducing funding for health care—

Interjections.

The Speaker (Hon. Dave Levac): Finish, please.

Hon. Charles Sousa: We have been disciplined and determined in our plan to recover and to plan to come to balance, and it's being achieved. The members opposite are going to put our economy in harm's way by taking the excessive actions that they're proposing, which will in essence put us at a disadvantage over other jurisdictions around the world.

We will continue to be free traders and continue to support Ontario.

The Speaker (Hon. Dave Levac): Final supplementary.

Mr. Victor Fedeli: Back to the minister: This is about trust. This is about looking out for families across Ontario. This is about making life more affordable. That is why we need to lower taxes in Ontario after years of Liberals raiding middle-class families to pay their Liberal insiders. If you want to know what the Liberals will do, just look at what they've done for the last 14 years. The Ontario PCs will make life more affordable. Why do the Liberals continue to make it harder for Ontario families to succeed?

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please. Thank you.

Minister.

Hon. Charles Sousa: It is all about trust, and I can tell you this: We can trust this government to continue to fight for the people of Ontario while the opposition, you can trust them to cut the very measures that matter to Ontarians.

I can tell you this: When we provided free pharmacare for everyone under the age of 25, they voted against that. They'll take that away. When we were talking about providing free tuition for students so they can get a better start in life, they voted against that as well. That's what you can trust from that side of the House.

We can also trust that when the Leader of the Opposition was in power federally, he voted in the largest deficit in our history. And the largest debt increase in Canadian history came from the Leader of the Opposition. The critic now stands here and suggests that somehow cutting revenues as well as—Mr. Speaker, cutting revenues and going into deficit spending is not what's in the best interest of the people of Ontario.

We need to provide programs and services that—

The Speaker (Hon. Dave Levac): Thank you.

Ontario Hansard - 12-December2017
FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTABILITY)

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Minister of Finance. The Financial Accountability Office showed us that Ontario is working with three sets of books. That is simply ridiculous. We need one set of books, one true set of numbers, to guide us.

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There's a way to do this, and that's for the government to follow the law, pass a regulation and release their pre-election finance report. The Auditor General said, "It is in the public's interest for the government to give us a pre-election report to examine as soon as possible, with sufficient time to do our work." This will give us one number, one set of books.

Will the government tell us when they will be bringing the regulation forward and when they will present the auditor with their pre-election finance report?

Hon. Charles Sousa: The reason there is a pre-election report is because this government mandated it, because of the elimination—and the fact that they held and hid a deficit throughout their proposals when they were coming into a budget.

We are balancing the books. I thank the FAO for the work they're doing around the sensitivity. He acknowledges that our economy is growing, that we have taken steps to balance the budget. In fact, public accounts, which is the one that matters most as to what has happened to this day, illustrates that we beat again our targets last year by over $3 billion to under $0.1 billion in terms of our actual results.

I acknowledge the work that's being done by the FAO, and I recognize that the member opposite, with his own promises, is unable to keep them because his own analysis states that they are not going to be able to achieve it. I will say more in the supplementary.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the minister: Families need to be able to trust what the government says about our finances. They deserve a true fiscal picture. That's only fair.

But the Auditor General has refused to sign off on Ontario's books multiple times under this Liberal government. The auditor has one more opportunity, and that's to review a pre-election finance report. First, the government must pass a regulation confirming it will release a pre-election report by a committed deadline. We want one set of books so we can truly assess the damage that the Liberals have done to Ontario.

Speaker, I'll ask again, will the government tell us when they will be bringing the regulation forward and when they will present the auditor with their pre-election finance report?

Hon. Charles Sousa: We are using the accounting principles that have been provided over the last 16 years. In fact, an independent review of the government's pension accounting and other things that was commissioned illustrated—with an expert panel concluding—that the province's accounting treatments are correct. I'll leave those disputes to the accountants.

But I'll say this, Mr. Speaker. Kevin Page, the individual who assessed the People's Guarantee, says the following:

"Re: Assessing the reasonableness of the estimates of the fiscal plan underlying the 2018 election platform of the Progressive Conservative Party....

"We caution readers that the provision of an opinion on the reasonableness of the estimates underlying the fiscal plan includes the reliance on third parties for information."

He says that they are "not currently in a position to pronounce" on those expectations, saying, "We look forward to seeing more detailed plans in the future."

Their numbers are based on ours, and they are estimating a deficit with what we're saying is—

The Speaker (Hon. Dave Levac): Thank you.

New question.

Ontario Hansard - 14-December2017
GOVERNMENT'S RECORD

Mr. Steve Clark: My question is to the Premier.

The voters are skeptical; that is no lie,

But we have to reflect and ask ourselves why.

From this side of the aisle, it's plain to see.

Premier, will you be accountable and sign the People's Guarantee?

Hon. Kathleen O. Wynne: Minister of Economic Development and Growth.

Hon. Brad Duguid: 'Tis the last question period

before Christmas

And I must say, with much passion,

We will bring in a minimum wage of $15,

With or without your attention.

We will lower energy rates,

We will create jobs as well.

This Christmas will be great for Ontario,

We're working to make things swell.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Supplementary? The member from Bruce–Grey–Owen Sound.

Mr. Bill Walker: To the Premier:

In question period, politicians, they go back and forth

When people want change for taxes

and support for the north.

So I'll ask again, because no answer was found:

Will you sign the People's Guarantee

when I sit down?

Hon. Brad Duguid: To the Minister of Finance.

Hon. Charles Sousa: The halls of the Legislature are haunted by the ghosts of Christmas past. They bring to us today the likeness of the miser Ebenezer Scrooge from across the aisle: they who have wanted to make cuts to supporting our families, to deny the gifts of our province's prosperity, to share for all.

On this side of the aisle, we thank the Premier and the jolly red grandmothers of Ontario, who, like Santa Claus, care for all of our children.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

New question.

FOIs/OPQs

Overview	Key Issues	Key Dates
OPQ 677 - MPP Fedeli Would the Minister of Finance state whether he accepts the Financial Accountability Office's 2017 Fall Economic Outlook assessment of the state of Ontario's fiscal position, given that the FAO stated Ministry of Finance bureaucrats did not disagree with any of the information in their report. (Tabled February 20, 2018) ***Proposed response with Minister's Office**	**Financial Accountability Office's 2017 Fall Economic Outlook**	OPQ House due date April 16
OPQ 636 - MPP Fedeli Would the Minister of Finance state on what page(s) in the Fall Economic Statement he has made corrections to reflect the concerns of the Auditor General and the Financial Accountability Officer about the validity of the province's stated fiscal position. (Tabled December 04, 2017) ***Proposed response with Minister's Office**	**Fiscal Position** **Financial Accountability Office & Auditor General reports**	OPQ House due date March 26

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Sessional Paper No. 677

677. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state whether he accepts the Financial Accountability Office's 2017 Fall Economic Outlook assessment of the state of Ontario's fiscal position, given that the FAO stated Ministry of Finance bureaucrats did not disagree with any of the information in their report. (Tabled February 20, 2018)

Response:

The government values the Financial Accountability Office's independent assessment and projections of the province's fiscal plan.

The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive. As outlined in the *2017 Ontario Economic Outlook and Fiscal Review* (FES), the government is projecting a balanced budget for 2017–18, consistent with the FAO's projection for this year.

In addition, The FAO's real GDP projections are aligned with the *2017 FES* over the 2017 to 2020 period. The government's economic projections are informed through regular consultations with private sector economists. In fact, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecasts, in keeping with prudent fiscal planning.

The FAO's outlook continues to incorporate the Auditor General's accounting interpretation for pension assets and the Fair Hydro Plan, which differs from the government's accounting treatment. However, the government prepares its financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB).

- In the *2016-17 Public Accounts of Ontario*, this included Public Sector Accounting Standards (PSAS) for pension asset accounting that have been used since 2001.

- The government's accounting presentation of the Fair Hydro Plan is appropriate under Canadian PSAS, and is in accordance with guidance provided for rate regulated entities under U.S. Generally Accepted Accounting Principles (GAAP).

We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

Sincerely,

Charles Sousa
Minister of Finance

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Sessional Paper No. 636

636. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state on what page(s) in the Fall Economic Statement he has made corrections to reflect the concerns of the Auditor General and the Financial Accountability Officer about the validity of the province's stated fiscal position. (Tabled December 04, 2017)

Response:

The *2017 Ontario Economic Outlook and Fiscal Review* (FES) provides an update to the fiscal and economic plan presented in the *2017 Ontario Budget*, and continues to demonstrate the government's approach to responsible fiscal management.

The Auditor General's Office and the Financial Accountability Office have raised two areas of concern with respect to the government's accounting: pension assets and the Fair Hydro Plan.

The government prepares its financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB). In the 2016-17 Public Accounts of Ontario, this included Public Sector Accounting Standards (PSAS) for pension asset accounting that have been used since 2001.

This is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'). The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, was established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian PSAS, even though the Province did not have a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded; and

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or the Ontario Public Service Employees Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

Similarly, with the support of external advisors, it was determined that the accounting presentation for the Fair Hydro Plan – according to guidance provided for rate regulated entities under US Generally Accepted Accounting Principles (GAAP) – is appropriate under Canadian PSAS.

For the current status of the Province's fiscal plan, please refer to *Chapter 3, Section C: Fiscal Outlook* of the 2017 FES.

Sincerely,

Charles Sousa
Minister of Finance

Supporting Materials: House Book Notes

January 31, 2018

ONTARIO'S FISCAL OUTLOOK

What is Ontario's Fiscal Outlook?

SUGGESTED RESPONSE

- **Ontario is delivering on its commitment to balance the budget in a fair and responsible way — a plan that was first introduced in the *2010 Budget*.**
  - **Over the medium term, revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20, while total expense is projected to increase from $141.7 billion to $157.4 billion over the same period.**
- **The Public Accounts of Ontario 2016–2017 reported that the 2016–17 deficit was $1.0 billion. This result is $3.3 billion lower than projected in the *2016 Budget*.**
  - **This marks the eighth year in a row that Ontario has beaten its deficit target.**
- **Investments have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global environment. Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries. Exports are up, businesses are hiring more workers and household incomes are rising.**
- **A growing economy, together with a balanced budget, is creating more opportunities for individuals and businesses in Ontario to share in the benefits resulting from the province's return to economic strength.**
- **Since peaking in 2014–15 at 39.3 per cent, the net debt-to-GDP ratio has been on a declining track as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.**
  - **The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

February 1, 2018

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **The first very important step in reducing debt is to balance the budget. Balanced budgets from 2017–18 onwards will ensure that the increase in net debt is limited to net investments in capital assets.**

- **The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been on a declining trend since then. It is projected to be 37.3 per cent at the end of 2017–18, 0.2 per cent lower than was forecast in the *2017 Budget*. This ratio is projected to continue to decline to 37.1 per cent in 2018–19.**

- **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest about $190 billion over 13 years, starting in 2014–15. These investments will not only create jobs, but will also contribute to the economy growing at a faster rate than the net debt.**

- **The positive impact of capital investments on the Province's economy was confirmed by the Centre for Spatial Economics which reported recently that, over the long term, GDP in Ontario increases by $6 for every dollar of public infrastructure spending.**

- **The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

- **In June 2016, the International Monetary Fund (IMF) released a report recommending that Canadian "fiscal policy should be pro-growth." Christine Lagarde, Managing Director (IMF), also expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element of the strategy.**

Borrowing Program

- **As of January 31, 2018, the Province has successfully completed its borrowing requirement of $25.8 billion for 2017–18. To date, the Province**

has borrowed $28.6 billion, including $2.8 billion in pre-borrowing for 2018–19.

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

  - **Interest on debt to revenue is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20. The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period to 2019–20.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of January 31, 2018, the average term for new borrowing in 2017–18 was 13.7 years compared to 8.1 years in 2009–10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $70.1 billion of bonds with maturities longer than 30 years to lock in low rates. As interest rates begin to rise, the Province will assess whether it remains cost-effective over the long term to continue to extend the term of its debt.**

February 6, 2018

ONTARIO'S CREDIT RATINGS

What are the credit rating agencies' views on Ontario?

SUGGESTED RESPONSE

- **All four rating agencies have a stable outlook on Ontario's credit ratings. This reflects rating agencies' confidence in our government's fiscal plan and its ability to grow Ontario's economy and create jobs for Ontarians.**

Quotes:

- **"The outlook is stable. This reflects our forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon." (Moody's, February 2 2018)**

- **"The ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden." (DBRS, June 28, 2017)**

- **"S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget." (S&P, June 15, 2017)**

- **"The return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term, which will slowly rebuild flexibility within the rating." (DBRS, April 28, 2017).**

Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

BACKGROUND

S&P:

Why is S&P's rating for Quebec higher than Ontario?

Although Ontario's budgetary performance has improved, S&P believes that it will continue to lag that of Quebec. S&P gives a lot of credit to Quebec for the Generations Fund, and the implicit $2-$3 billion per year surplus that it results in.

- Quebec is expected to record an operating surplus of close to 9% of revenues on average over 2015-16 to 2019-20, compared to close to 4% for Ontario. In addition, S&P expects Quebec to record after-capital surpluses of over 1.0% of total revenues over 2015-16 to 2019-20, compared to an after-capital deficit of 3.1% for Ontario over the same period.

S&P believes that Ontario's credit profile is strengthening however, they will need to see a track record of consistent operating surpluses and balanced or near-balanced after-capital results coupled with continuing declines in direct and tax-supported debt burdens that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action on the province.

- Quebec's tax-supported debt as a share of revenues is expected to average 217% over the 2015-16 to 2019-20 period, while Ontario's tax-supported debt is expected to average 246% over the same period.

S&P's Report on Ontario – June 15, 2017

S&P believes that Ontario's credit profile is strengthening however, they will need to see a sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action.

S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing the Province to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget.

The stable outlook reflects expectations that within the next two years the province will sustain a more balanced budgetary performance, including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low

contingent liabilities. The ratings also reflect S&P's view of the province's weak budgetary performances and very high debt burden.

S&P Lowers Ontario's Short-term Rating to A-1 from A-1+ – June 15, 2017

S&P lowered Ontario's short-term rating to A-1 from A-1+reflecting their revised methodology". This is the highest short-term rating for an issuer with an A+ long-term rating, unless the issuer's liquidity is viewed as exceptional. Ontario's short-term borrowing costs are unaffected by this change as this simply reflects a change in their methodology rather than any change in the quality of Ontario's credit.

S&P Mapping of Short-Term Ratings to Long-Term Ratings

Long-Term Rating	Short-Term Rating
AAA, AA+, AA, AA-	A-1+
A+, A	A-1
A-, BBB+, BBB	A-2
BBB-	A-3
BB+, BB, BB-, B+, B, B-	B
CCC+, CCC, CCC-, CC, C	C

Moody's:

Moody's Report on Ontario – February 2018

Moody's updated their Credit Opinion for Ontario following the release of their rating on the Fair Hydro Trust (FHT) on January 22nd. Moody's is now including debt issued by the Fair Hydro Trust in their key debt measure for Ontario. "While FHT, which was created at the behest of the province, is designed to be self-supporting (pay principle and interest through revenue generation) on a life-cycle basis, it is not currently as it faces a moratorium on revenue generation. Further, FHT carries the possibility that a provincial guarantee of its debt may be invoked in certain prescribed circumstances."

They do note that the total financing required is "nonetheless fairly negligible given the province's high net direct and indirect debt level." They also note that they will review this treatment once revenues from the Clean Energy Adjustment charge is added to consumers' electricity bills in 2021.

The stable outlook reflects Moody's forecast that the debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon.

Moody's noted the following credit strengths:

- Institutional framework provides significant fiscal policy flexibility

- Prudent debt management waith a focus on market access and debt affordability
- Revenue supported by a diversified economy with a broad and productive tax base

Moody's highlighted a number of credit challenges:

- High debt burden and debt will continue to increase despite balanced budget projections
- Elevated interest expense, with higher rates anticipated
- Rising expenditures risk to balanced fiscal targets

Factors that could lead to a downgrade:

A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

DBRS:

DBRS 2018 Canadian Provincial Government Outlook – November 17, 2017

DBRS notes that most provincial ratings are expected to remain relatively stable.

Economic fundamentals have exceeded expectations in 2016 and 2017, enabling most provinces to finish the year better than expected while increasing spending or reducing taxes. Growth will likely slow over the medium term as cyclical influences diminish.

Ontario's credit profile is improving. However, the province has only recently balanced its budget, debt is significantly higher than it was before the recession and the pace of debt-to-GDP reduction is gradual. In past recessions, the policy response and economic contraction led to significant increases in the debt-to-GDP ratio. A similar economic impact and policy response could put downward pressure on the rating.

DBRS notes that Ontario intends to maintain balanced budgets, with rising revenues being directed into program spending. Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio. DBRS expects debt to decrease to 40.0% of GDP over the medium term.

The ratings for Ontario and New Brunswick appear most at risk of a negative rating action if the economy were to face a severe recession, while a downturn may accelerate the pace of a rating change in Alberta.

DBRS Report on Ontario – June 28, 2017

DBRS notes that the ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden.

The better-than-expected result stemmed from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

Debt growth has slowed with the return to balance. The DBRS adjusted debt-to-GDP ratio, which is currently at 43.3%, is projected to approach 40.0% of GDP over the medium term.

DBRS expects the ratings to remain stable. Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.

A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies. In contrast, an upgrade would require a significant reduction in the provincial debt burden.

DBRS Commentary on Ontario's Plan to Reduce Electricity Prices – March 2017

DBRS views the proposed changes as credit neutral, since the Province has the ability to absorb the fiscal impact while still restoring budgetary balance in 2017–2018.

The Province will recover the debt and financing costs associated with reducing the Global Adjustment through future electricity rates. Provided the debt continues to be fully supported by the electricity rate base, DBRS will treat it as self-supported and exclude it from tax-supported debt. DBRS will re-evaluate once more information becomes available.

DBRS Report – October 2016

DBRS released a report stating that spending on infrastructure "can result in higher nominal GDP that can be large enough to result in a declining government debt ratio." According to DBRS, "historically low interest rates are providing a window for governments to lock in low rates on public investment projects."

Fitch:

Fitch Report on Ontario – June 2017

The tabled budget for fiscal 2018 completes the province's plan to eliminate its annual budget deficits by fiscal 2018. Despite some variations to the plan announced in the 2010 budget, the province has remained committed to this fiscal goal.

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives. Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Confirmed February 2, 2018
DBRS	AA (low)	R-1 (mid)	Confirmed June 28, 2017
Fitch	AA-	F1+	Confirmed June 20, 2017
S&P	A+	A-1	Long-term rating confirmed; short-term rating lowered June 15, 2017

Supporting Materials: Other Considerations

MEDIA EVENT: AUDITOR GENERAL BONNIE LYSYK ANSWERS QUESTIONS FOLLOWING RELEASE OF HER ANNUAL REPORT

Date / Time / Location:

December 6, 2017 / Noon / Queen's Park Media Studio

Speaker:

Ontario Auditor General Bonnie Lysyk

Media Attendance:

Print – 11 TV – 4 Radio –

Media Outlets:

Benzie – Star; Ferguson – Star; Boyle – Star; Giovanetti – Globe; Artuso – Sun; Smith Cross – QP Briefing; Hains – QP Briefing; Reynolds – QP Briefing; Smith – QP Today; Crawley - CBC Radio/TV; Carter – Global; Tumelty - City TV; Morissette – TFO; McGrath – TVO.

Statement:

Hello, everyone. I'm Bonnie Lysyk and I'm the Auditor General of Ontario. And, thank you for the opportunity to discuss our 2017 Annual Report with you today. This report, my 5th, contains fourteen Value For Money audits, which we call VFMs for short. Seven of them are in the health and education sectors that together account for more than 2/3 of all government spending. This report also provides several important cautions about recent changes to the government's financial reporting processes. I'll have more to say on that in a few minutes. But I want to start with the VFMs. Each year, we look for common themes that run through all of our audits. One that emerges year after year is that the decision makers do not always have all of the information needed to make the most appropriate decisions. A related theme in many of this year's VFMs is the need for governments to improve longer-term planning that supports timely, and informed decision making and oversight. This will be become readily apparent as I summarize the VFMs.

Our audit of emergency management in Ontario found that the last provincial risk assessment was based on emergencies experienced in Ontario up to 2009. That means the current provincial emergency management program has not planned for more recent and evolving threats related to climate change, cyber-attacks, and terrorism. In addition, the Provincial Emergency Response Plan and the Provincial Nuclear Response Plan have not been updated since 2008 and 2009 respectively.

Our audit of the IESOs market oversight and cyber security found that the Ontario Energy Board's market surveillance panel has said in thirty reports since 2002 that Ontario's Electricity Market is vulnerable to manipulation because of design weaknesses and flaws. Some market participants have exploited these flaws, resulting in millions of dollars of additional costs for rate payers.

Our audit of cancer treatment services, found that Ontarians needs were not fully being met in the areas of radiation treatment, head scans, and wait times for some urgent cancer surgeries and diagnostic services. In addition, the province's limited capacity to preform stem cell transplants was first identified as an issue in 2009. In the next six years, this issue led to excessive wait times and costly out of country procedures. Only in 2016/17 did the Ministry of Health and Long-term Care approve capital projects to expand stem cell transplants in Ontario. Earlier planning could have mitigated many of those difficulties.

Our audit of laboratory services in the health sector found that the Ministry of Health and Long-Term Care will in 2017/18 update the prices it pays private sector community labs for medical tests. Nearly twenty years after its last major price update. The province could have saved $39 million in 2016 alone, if it had planned to implement the new prices just two years earlier.

Our audit of social and affordable housing found that Ontario's social housing wait list has increased 36% in the last 13 years. Challenges are also likely to increase, in the medium term, as contracts with housing

providers offering below market rents on 83,000 units have begun to expire and will continue to expire over the next 15 years. Despite this however, we found there is no provincial strategy in place to address Ontario's growing social housing wait list.

We noted during out audit of the assessment review board, that as of March 31, 2017 the board had a back log of more than 16,000 unresolved appeals, but put a plan in place to reduce that backlog. We also noted in our related audit of the Ontario Municipal board, that this board took between 10 months and almost seven years to close complex cases. However, this board had no plan to place -- no plan in place to handle the existing workloads and reduce the delays.

The Ministry of Agriculture, Food and Rural Affairs is responsible for four main farm support programs to help farmers manage production risk and price risks. However, our audit found that the ministry's existing programs would likely not be sufficient to provide support during extended market crises or natural disasters. And the Ministry had no explicit plan for dealing with such major issues.

Our audit of settlement and immigration programs in Ontario found that there was only limited coordination between the federal and provincial governments to avoid duplication of services. We estimated that in 2016-17, for example, about 30 million in Ontario-funded newcomer's services duplicated services there were already funded by the federal government.

We audited real estate services provided by Infrastructure Ontario. With respect to the province's real estate portfolio of about 4,800 buildings we noted that Ontario spent almost 19 million in 2016-17 to operate and maintain 812 vacant buildings across the province. The majority of these buildings had been vacant for an average of almost eight years.

The Ontario public drug programs provide drug coverage to 4 million people at an annual net cost of $4.9 billion. It found that the Ministry paid $271 million more than some Ontario hospitals in 2016-17 for the same drugs, indicating that opportunities exist for the province to get more discounts on generic drugs.

Ontario's 75 community health centres provide health care services and community programs to vulnerable populations and have the potential to help lessen the load on the overall health care system. However, the province lacks the critical information needed to determine whether the centers are cost effective in providing quality care.

Our audit of public health chronic disease prevention noted that Ontario has no overarching policy framework on chronic disease prevention to guide overall program planning development and continuing program evaluation. Plans are needed on how to collectively address important contributors to chronic disease, such as physical inactivity, poor diet, and heavy drinking.

We conducted audits of school boards management of financial and human resources and of the Ministry of Education's funding and oversight of school boards. The funding formula used by the Ministry to fund school boards has not been fully reviewed since 2002. As well, the ministry is not monitoring school boards use of special purpose funding to address such priorities as students at risk of low academic achievement. As a result the Ministry does not know whether this special purpose funding is meeting its stated priorities.

In addition to the VFM's, every annual report contains follow up work on audits of two years earlier. So this year we review the government's progress on the actions we recommended in our 2015 annual report. We found that government ministries and agencies made some progress toward implementing 71 per cent of the actions recommended in the 2015 annual report, but only 33 per cent of them were fully implemented. New this year we also looked at the progress made with recommendations from 2012, 2013 and 2014 and found by 2017 the rate for full implementation was only about 50 per cent for each of those years. However, on a positive note, we were told that work continues on implementing most of the remaining recommendations.

Turning to government advertising, in 2016-17 the government spent more than $58 million on advertising, the most since 2006-07, with just over 30 per cent of that for ads we believe had as their primary goal to foster a positive impression of the government party.

Now I mentioned earlier that government needs good information to make good decisions. All Ontarians also need good financial information on government finances to help them assess the government's performance. Financial numbers tell a story. If that story is not truthful, it risks breaking the trust that must exist between the government and the people. This year, our October 2017 Special Annual Report on the Government's Financing and Accounting Design Under the Fair Hydro Plan also raised a significant question of value for money. Why would the government create an unnecessary complex and opaque structure to borrow when it will cost more for Ontarians? The response we heard was that it is being done to keep ratepayer and taxpayer costs separate. This is not the full story. These costs can be kept separate without incurring the extra borrowing expenses that the Office of the Financial Accountability Officer estimated at about $4 billion. The government has challenged this figure but to my knowledge, it has offered no new estimate to update the $4-billion figure. We are aware that the government did it this way because of its desire to ensure this policy decision is not reflected in the annual deficit. In other words, by creating a needlessly complex financing structurer rather than using traditional borrowing methods at lower interest rates, the government consciously decided to incur more costs, potentially up to $4 billion more, to try to keep the bottom line and net debt impact of the Hydro Rate Reduction policy decision from showing up on the province's consolidated financial statements. This is by far the most serious value for money issue this year. Chapter 2 in our annual report highlights our concerns on this and other financial matters.

Again, on the issue of transparency, there is another potential issue on the horizon in the new year: the government's pre-election report on Ontario's finances and the subsequent review of it. The work can only take place when the government passes a regulation confirming that it will release a pre-election report by a deadline that it sets, and which has to be done prior to the voting day. The process went smoothly in the last two regularly scheduled elections, which were both held in October. The government issued its pre-election report after the spring budget, and we had about ten weeks to review it and issue a report. Ontarians then had more than three months to digest both documents before the election. With the next election being in June, not October, it is important to plan ahead to ensure there is sufficient time for my office to issue our review of the pre-election report and for Ontarians to absorb both reports before the election. I urge the government to keep the calendar in mind as it prepares its pre-election report.

Our mandate is to comment on areas where there are opportunities for improvement in the delivery of government and broader public sector programs and services. This is important to keep in mind in reading our reports because it is equally important not to forget that there are many things that are working well. For example, to name only a few from our audits this year: Most cancer patients are generally receiving treatment in a timely manner; the Ontario Public Drug Programs have provided timely access for eligible recipients when their prescribed drugs are listed on the formulary; accurate and timely lab results are being delivered to health care professionals; crop protection insurance is helping most crop farmers manage production losses; school boards are using their restricted funds for purposes intended and have been increasing their use of group purchasing arrangements to acquire goods and services which should result in cost savings.

In closing, I want to thank, on behalf of my team, the many people in the public and broader public sectors involved in our work, for their assistance and cooperation in the completion of this year's audits. I want to extend my personal thanks to my team, the various experts who shared with us their knowledge and advice, and to the private sector accounting firms that provided us with assistance during the past year. Now I would be happy to take your questions.

Q: Ferguson: What does this say about the IESO that gas fired plants were passing on the cost of items like parkas, coveralls, landscaping, staff car washes? How does	So I think the thing to keep in mind is that the responsibility for oversight is split between the IESO and the Ontario Energy Board. They have the Ontario Energy Board panel has for many years issued reports signaling that there were

that get through? And at what point does as an auditor, either in the private of public sector, would you advise to call the police about things like that?	problems with the two programs that we highlighted in our report and so they did provide that information. The IESO staff have conducted investigations there but unfortunately program changes were not made based on fully based on the recommendations of the OEB board. So we would say that, you know, that we think that there should have been more due consideration for those reports by the OEB panel. As well, the panel wanted more information to support the justification of those reports from IESO because IESO did indicate they needed those programs for liability purposes. That technical assessment has not been done yet. In terms of the next step no it's not for me to comment on, you know, anything to do with a referral anywhere, that's up to IESO and the OEB to determine, you know, how their concerns best get addressed.
Q: Ferguson: But how does those coveralls, parkas, landscaping? How does a $300,000 landscaping bill get passed on to ratepayers? Someone is not paying attention, right?	So the program was such that costs could be, bill could be submitted but without any support for the bills and the bills were being paid. And it wasn't until more detailed, more requests were made for detailed information that they became aware that there were costs behind that bill that probably shouldn't be reimbursed under those programs.
Q: Carter: Overall, if I am correct, (inaudible) of overpayment?	Well there's two different programs right? So there's one that is called a Standby Costs Recovery Program which is supposed to provide money for the plant and people that would be providing peak power. That one is a reimbursement for gas, maintenance and operating. The OEB panel said that when they started including maintenance and operating costs, that that was too generous and that it should only be gas. But the IESO continued reimbursing for all those costs. The OEB panel said perhaps that program is not necessary because only one per cent of power is provided under that of those funds.
Q: Carter: 30?	Yes.
Q: Carter: Just so we are clear here. People in this province are paying $30 million more a year for power than they should be?	So based on the OEB panel's report, they indicate that they do not believe that there is support for maintenance and operating costs to be covered under such a program. And that equates to about $30 million. So yes.
Q: Carter: Would you be shaking your hydro bill in anger then because of that?	I guess I would hope that this is addressed and that the IESO revisits this program as is recommended by the OEB panel to do.
Q: Giovanetti: (Inaudible) fully audit the IESO?	Yeah. In our report we have a recommendation that we comment on the financial statements of IESO. So we have already made the board of IESO aware of our intent under the Electricity Act to conduct the test audit, financial statement audit, of IESO. We'll do it in one of three ways. Either we will do it as the sole external auditor of IESO. We will either do it in partnership with their existing audit firm, which is possible you can do joint audits. If they indicate to us that they don't like either of those, under our legislation

	and the IESO's and the Electricity Act, we will still be conducting an audit at IESO.
Q: Giovanetti: Is it unprecedented for your office to do?	It probably is unprecedented to suggest that we go in now and audit IESO financial statements. We haven't audited those financial statements as an office before. But the Electricity Act provides us that opportunity.
Q: Benzie: Bonnie you mentioned the next election. Are you concerned that you are not going to get that pre-election report. Because by my calendar, the election is June 7th. Traditionally you have ten weeks before so you would need that pre-election report by March 29th to be able to give you time to sign off on all the books. Are you concerned that you are not, have you received indications that you are not going that?	I think the thing is, the earlier the better because then there is an opportunity to issue the report without it being too close to an election, that there is an opportunity for people to digest the report. I do not want to be caught up in any discussion that, you know, why are you issuing a report so close to the election? But I think our concern is we don't know yet. We do not know what is planned. We have had some general meetings with the controller's office but we have not had a definitive indication of whether or not the pre-election report will be provided to us and when. So I think we need more concrete communication this.
Q: Benzie: Speaking of the election, you expressed concern again about the books not being balanced in your view, according to the accounting practices, they are using different methods that you dispute. Are you concerned that the Progressive Conservative platform that was released two weeks ago, it uses those same government assumptions, the same government accounting, the same practices. So they are projecting a $2.8 billion deficit in their first year. Does that mean that their $2.8 billion deficit would actually be considerably higher, it would be possibly $7 billion, something like that, depending on the accounting?	You know what, I have not read the platform. My only comment would be that I guess when you think about it, you kind of have to use the same numbers, so that you would have an apples-to-apples public comparison. That is the only comment that I would have on it.
Q: Benzie: If you say there is a deficit now and the government says there is not one, if there is a $2.8 billion projected deficit based on the government's numbers, it is going to be therefore higher, right?	Yeah I think we think the impact for 17-18 will be about $4.5 billion.
Q: Benzie: $7.3 billion - my calculations with about $7.3 billion based on your numbers.	Yeah I'm not sure the seven but I'll say that we estimate that it would be the additional costs to the bottom line might be about $4.5 billion. We have our estimates in Chapter 2 of our report.
Q: Artuso: Signing off on the books pre-election - are these disputes over accounting practices likely to figure into part of that report?	You know I think our position on the on the accounting for the rate reduction and the pension assets is pretty understood and that will be factored into our review on a pre-election report depending on how, you know, how the government chooses to reflect that in the report.

Q: Crawley: How concerned are you about the apparent increase in sick days being taken by teachers and other education workers?	Yeah we noticed. I mean we looked at the school boards and we also looked at a survey that the school boards had done of 50 school boards. So we looked at the ones, you know four specific ones in the 50 and we did identify there that, you know, they've identified too that there is an increase. I think it's concerning in the sense that money that perhaps is intended to be used for programming has to cover other financial pressures associated with sick leave such as substitute teachers. So we do highlight that in the report.
Q: Crawley: And just to follow up on it, the government's ostensible reason for wanting to end that banking of sick days was that it saves money. So do you analyze - like, are we better off financially that teachers and other education workers are not allowed to bank that sick time and then cash it out at retirement.	Well I don't think we looked at it as a trade-off. I mean I think when you hear the term sick leave and sick days you assume that people are sick and so, you know, we're commenting that school boards perhaps need to put in place some sick leave policies and a program to manage the sick leave so that they can minimize the cost to the overall school board budgets. So you know, someone you would think - I would think as a taxpayer that in order to book a sick leave I need to be sick. So I think with the increase that we're seeing, we're just saying school boards you need to monitor this to make sure that a sick leave program is in place that is followed that would stand our scrutiny of it.
Q: Boyle: Auditor, of all the health audits that you did, what stands out to you the most?	I guess I didn't know, or I think a few of us in the office didn't know, what a CHC was, a community health center was, before we actually went in and looked at the community health center's and they're pretty -- it's pretty neat actually, the concept, right. I mean you walk in and you've got your primary care physician, you've got, you know, maybe a physiotherapist, maybe a social worker, maybe you have somebody to help you with housing, a lawyer there to help you with paperwork if you have, you know, if you're a vulnerable -- a member of a vulnerable population and you need assistance. So I think that was probably the most surprising to understand that that type of operation existed in Ontario. And you know we sat back and we said well that's interesting, I mean, has it been studied in terms of the broader application. So one of the things we recommended in the report is that the information around those units and how they operate needs to be looked at by government to see how it fits into the provision of primary care in Ontario. The CHC accumulate your own information. There is no OHIP billing. So in terms of understanding what services they are giving to their patients they might know that, but the province doesn't know it right now because they're on a separate IT platform. So I think, you know to answer your question that was probably one of the more most interesting, I think, points, you know, that how they operate in Ontario.
Q: Boyle: And cancer drugs outside of hospital, you're recommending that the province pay for those? And if so, how much would that cost?	I'm not recommending that they pay for it, more looking at it from the perspective of an equity in the sense that if the concept is to reduce costs of people going into the hospitals or getting treated in the hospitals, if you if you have to take a cancer drug you have to go into the hospital and get it done.

	It's covered, it's free. Right. But if you have to take a cancer drug and it's in a form that you can take at home you have to pay for it yourself. So, we just pointed that out that perhaps that's just something that can be looked at, you know, what's the trade-off in having people have to go and have it done in a hospital versus is it cheaper to support the cost of the drugs in somebody's -- you know, taking the drugs in their homes. So that's how we've looked at it versus saying, you know, there should be coverage of it.
Q: Reynolds: Auditor, with the emergency preparedness, I understand that there's ineffective oversight structures and there's a low priority status for the emergency management office, but how does that actually – to what extent does that actually put Ontario residents at risk?	So it was interesting looking at this because, I mean, it's one of those programs where I think you have to make a decision, you know, I mean there's a lot of programs that need money and you see the results of that money right away. And then there's something like emergency management until you need it you don't see the results of that. So we do comment in the report that over the last number of years there's been less attention given to that function. You know, a committee of cabinet hasn't met on it for many years. But we're not saying that if something happened in Ontario -- there'd be a response, there for sure would be a response, but we're commenting that perhaps the response could be more effective if there was more time spent on the planning -- planning before something happens. So for sure we're saying that you know there would be a response is it -- would it be the most cost effective, most efficient response. That's where we're saying we think more attention needs to be put on emergency management planning simulations, communication between the province and municipalities. That type of thing.
Q: Reynolds: Are Ontarians at risk though?	I wouldn't phrase it that way. I would say that this is -- this is a type of program that you make a choice as to the extent to which you invest in it for the future. So like I said, can there be a response if there is a forest fire? There'll be a response. Will it be the most effective? You know, a good one is the nuclear planning, that one is a plan for evacuation around a nuclear plant, you know, so until more time is spent doing maybe a simulation -- and I believe something is happening today around that, you don't know how responsive you're going to be. So -- but I wouldn't phrase it, I wouldn't phrase it the way you've phrased it.
Q. Artuso: You mentioned transparency as a priority. Should these [Inaudible] be recorded? I think they used to record what they call "Covariance Reports," what they are what they got the money for what they actually spent the money on. In this case, should you look at a province like Ontario, which has so many new immigrants coming in. ESL money is being diverted and at-risk money for kids is being diverted to other fiscal pressures on the school-boards. Should there be more clarity around what	So, there are funds that are restricted funds and in the audit we found that school boards are abiding by that. So, when they know something is restricted, they're definitely following the rules and they're using the money appropriately. Where we highlighted in the report, our questions were around more the funds that are designated for something. So I think we use the example of students that are not high achievers-low achievers. And the province said one of our priorities is to have those people become higher achievers. But when we looked at the money, it wasn't being spent for that, it was being spent for other purposes. And the reason being- it's not school board's fault, the province says we're going to

schoolboards spend their money on, and a comparison between what money was meant for and what it was actually spent on?	give you this money and you can do whatever you want with it, even though we have this provincial priority. We're just saying that if you designate money as a provincial priority, it kind of makes sense to taxpayers that we would assume you're following up to make sure that priority is going to be achieved somehow or what's the progress toward achieving that priority. So, that's more our issue, because it's not whether or not the school board spent the money right or wrong. They have the discretion. But it's the province designating it for something and labeling it that and then not following up that it's spent, that is our issue.
Q: Smith Cross: Can you elaborate on the 900 applicants on social housing waitlists that have homes?	Yeah, in our report we have a table and when we were looking at social housing, there were about 900 people on the waiting list that had self-declared that they owned properties. So, I think one of our points in that report is that eligibility criteria for social housing really is kind of locked into the income. Are you bringing in income, versus looking at other criteria when that assessment is being made. We also highlight if somebody said they can still stay on the list. If they own assets no matter what level of assets, as long as it's not generating income for them, they can stay on the list. They can say no to properties and stay on the list. Our point and all of that is that other provinces seem to have more criteria that they use to determine who should be on the list and it's more based on need. So somebody that's homeless, should they have more priority versus somebody died even though 40% of your income is going toward their rent, just because you're "first come first serve" on that list, should you be getting that house? They do have an exception though for situations with violence, housing those people gets priority.
Q: Smith Cross: [Inaudible] who own a home getting social housing when they get to the top of the list?	Our understanding is that that's the case. Having said that, the focus of our work was looking at who was on the waiting list.
Q: Tumelty: The strategy for sexual abuse was [inaudible] there's just under 190,000 people on the waiting list. There's [Inaudible] there is the real-estate, they have just under 190,000 homes. But the province has [Inaudible].	There is a requirement for about 187, 000 social housing properties to be available for households. And when we looked at it, we recognize that they are about 20,000 short in providing that and meeting that requirement. That's really the only requirement in Ontario or Canada for social housing. Really, there isn't a requirement for anybody to provide social housing -that is the only requirement, the firm requirement. So we did comment, some of the properties are just they were in poor condition. We had some people that perhaps don't require social housing that are still occupying those units. So they're not really social housing units per se. Some have converted from social housing I believe to market rate.
Q: Crawley: What's the impact of all these hundreds of government buildings sitting empty?	They do have a plan, Infrastructure Ontario has a plan to dispose of properties. It's just not, they are not disposing maybe as fast as one might expect. I think they only had a handful – just 19 properties I think were sold. So what we're

	saying is you're paying a few million dollars maintaining these vacant properties. Maybe it would be good to speed up the disposal of them.
Q: Crawley: Couldn't they be repurposed for other needs? We were just talking about the lack of social housing and the government has talked a lot about property, wanting to benefit that people are trying to find properties. Would you have some ideas of what should be what should be done with these government buildings?	I mean, they're like old OPP detachment offices, correctional facilities. So I mean, is there a potential re-purposing? I think that's a good question for maybe Infrastructure Ontario. I don't want to - I'm not sure. I'm not sure of the re-purposing, so I don't want to take you down a path there but I think these are designated properties for disposal. So our point was just, you know, maybe it's good to do something with them rather than continue to pay, I think it's $19 million a year, goes toward maintaining these vacant properties.
Q: Crawley: Many, many millions more worth of real estate, were you able to count (inaudible)?	We don't have an estimate. They're all book value. So we don't have an estimate of the value of all of that property now. But again, that's probably a good question for Infrastructure Ontario.
Q: Ferguson: Getting back to the car washes and the (inaudible) traps and the carpet cleaning at the power plants. How much money was spent on - was billed on things like car washes?	So in the report, we indicate that there was about, the ISO - excuse me - through the investigation, they identified about $260 million in billings that they would say were for ineligible costs. About 168 of the million of that were recovered. And part of the rest, there wasn't a material or invoices provided. And so, there was a settlement. Right. So, you know, how much of that remaining? I don't - I can't comment.
Q. Ferguson: For car washes, like dirt, does any of your (inaudible)?	No, we didn't tabulate that. I think the ISO team, I think, did a lot of work there in coming up to the $260 million but I don't know the breakdown. I think we cited some examples because it was kind of foreign to us when we looked at this because, you know, these are supposed to be costs for gas, costs for maintaining a plant and costs for operating a plant. So, obviously, you know, we were concerned when we saw what they had identified themselves as issues. I think the point here is the OEB panel did their job. They did their job in identifying issues. I think where there needs to be a little bit more accountability is that the ISO level for making changes or for looking and providing reasons for why changes weren't being made to back to the panel to explain why their recommendations weren't implemented more fully.
Q. Crawley: Do you have any sense of why it is that they did not recommend the (inaudible)?	Well, I think, like what we say in the report and what we were told is that, you know, there are reliability concerns and that, you know, these programs are operating for reliability purposes and that's where the OEB comes in and says no, well give us your technical reports as to why you think those two programs are needed for reliability of the system. I mean, one deals with congestion on the lines and the other one deals with people, the gas plants being available to provide peaking power. But when you're in a surplus situation again, you know, you kind of revisit that program and the other one and congestion. You know, I think you revisit that one too when times change. Those programs have been around since 2002, 2003. So, time to revisit.

Q. Crawley: The IESO have too close relationship with the private companies that are making money off of this and providing the power. Is there two...	The only thing I would say there is that when we looked at the market initiative that, you know how there is now an initiative to redesign the market. Right? And we have concerns that there might not be sufficient representation from, you know, a residential rate pair or a small business rate pair on not that. And that people that were members - working for companies that either have been investigated or under investigated and found to have been playing the market. Those companies still continue to be in that group that's redesigning the market. So we do have that in the report. We said that is a concern. I did find out today that as of December 1st, I think Goreway was removed but, you know, that and I think the technical panel that provides advice to ISO, also has people involved - organizations. This is not a people thing, this is an organization discussion because over time players change, right. So even though the person on December 1st was from Goreway, chances are they weren't the person that was involved in some of the problems that they had there. So the technical panel also has membership that we would question. All right, thank you very much.
N.B.: Comments captured are not verbatim quotes	

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Fedeli Focus on Finance

Year-End in Focus

Volume 4: No. 12 | December, 2017

Happy New Year! As we settle into the start of 2018, this edition catches you up on what happened in December with respect to Ontario's finances. The earlier December Special Edition of *Focus* covered what the Auditor General had to say. This regular issue will fill in what happened throughout the rest of the month.

The FAO Weighs-in

Of major significance was the release of the Financial Accountability Office's (FAO) *Economic and Fiscal Outlook: Assessing Ontario's Medium-term Prospects*. The very first sentence should give you all the information you need … "FAO projects a return to significant budget deficits." It goes on to explain that despite a strong boost to revenues this year (much is one-time revenue), "the FAO is projecting a budget deficit of $4 billion in 2017-18." This is the result of the Auditor General's (AG) recommended accounting treatment for both the government's so-called Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.

Beyond this year, the FAO is projecting a "significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing impact from the Fair Hydro Plan." By 2021-22, the FAO is projecting a budget deficit of $9.8 billion. The report reveals "This is a significant deterioration since the FAO's spring outlook and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment."

The FAO, both in the report and in the briefing lock-up, expressed concern about having all these various forks in the road, leading to several versions of deficit numbers. The report concludes "It is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

The FAO stated that "additional measures to raise revenue or lower spending will be required if the province intends to achieve and maintain a balanced budget." However, there are major differences between the FAO's forecasts and the government's, both on the revenue and expense side. According to the government, between 2017-18 to 2019-20, revenues will grow by 5.2% on average, much higher than the FAO's projection of 4.3%. This results in a difference of $2.9 billion in tax revenue. In addition, many of the one-time revenues will expire, including federal equalization payments (gone by 2019-20), debt retirement charge, federal infrastructure transfers, carbon allowance proceeds (there were five auctions vs four as in most years), and sales of assets, such as Hydro One and various real estate. On the expense side, the government will spend $9.7 billion more than what they had planned to spend in 2017-18, according to their own fiscal plan of just two years ago.

As for the key risks in the outlook, the FAO, as well as most forecasters, continues to assume that uncertainty over NAFTA will have a detrimental effect. Some businesses are postponing investment decisions until this is resolved. The FAO is also concerned that "strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt." With rates expected to rise, "many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth." In the FAO's spring report, it outlined the housing market as a significant threat to the economy, with record consumer debt loads and stretched level of affordability.

Further Analysis

This all ties in with what many associations and financial groups published in December. RBC Economics stated "After several years of consumer spending and housing activity acting as the main engines of growth, changes

to regulations in the housing market and rising interest rates are setting up for a moderation in housing resales and ancillary purchases." With respect to overall growth, RBC further commented that "economic slack has diminished considerably following long periods of expansion, making it harder to repeat 2017's rapid growth rates."

Central 1's economic analysis sees slower growth in the near term, largely from personal consumption and residential spending, with a small drag from a shrinking trade balance. They also list the minimum wage impact and NAFTA uncertainties as sources of risk for the province's economy. Central 1 also reported that small business optimism in Ontario decreased since November, to 57.5/100 (down 0.8%). Since June, year-over-year small business confidence tracked lower than the same period last year. December's year-over-year negative gap was the widest of 2017.

Many organizations chimed in on the minimum wage issue. The Bank of Canada announced that Ontario's move to $15 per hour will cost the province 60,000 jobs. This is bracketed by the Financial Accountability Office's estimate of 50,000 lost jobs, and TD Bank's assessment pegging it at 90,000 jobs to be lost. The CFIB suggested this change will cost Ontario between 68,100-155,900, when both direct and indirect job losses are considered. Undoubtedly this debate will continue, but all eyes will be on the monthly labour statistics, for some monthsto come.

In a series of blistering reports, the Fraser Institute painted a bleak picture of Ontario. The titles are very revealing. Uneven Recovery: Much of Ontario still hasn't fully recovered from the 2008 recession; Canada's job engines are in the West and Quebec – not Ontario; Ontario's manufacturing sector falling behind other provinces, U.S. states; and Rising electricity costs and declining employment in Ontario's manufacturing sector.

Fraser claims that most of the province's job creation took place in its largest urban areas. Toronto and Ottawa alone created the equivalent of 98.6% of all new jobs in Ontario between 2008 and 2016. Basically, throughout the rest of Ontario, there has been virtually no job creation since 2008. I can attest that my hometown of North Bay is one of the 17 urban areas that are under the national average, and one of the 11 urban areas that actually experienced net job losses (around 9%) since 2008.

While Ontario is not alone in having a reduced manufacturing sector, it exhibits the most substantial decline when compared to other jurisdictions in Canada and the U.S. Fraser compared the manufacturing sector's share of real GDP between 2005 and 2016. Ontario's share dropped 5.1% compared to the U.S. falling less than 1%. In fact, several jurisdictions in the U.S. northeast (our main competitors) saw increases, including Indiana at 1.5%, and Michigan and Kentucky by almost 1%. Another indicator of decline is Ontario's relative ability to attract investment. Between 2006 and 2016, manufacturing investment declined by 26%, while it increased in Saskatchewan by 35%, B.C. by 15%, Quebec by 11%, and Manitobaby 5%.

The various reports conclude "Ontario is faring so poorly relative to other jurisdictions that all face the same challenges. Simply put, poor policy, including policies that have dramatically increased electricity costs, which have likely placed too large a financial burden on manufacturing and hampered the sector's competitiveness."

Hydro Still Making News

Ontario's skyrocketing hydro rates just can't seem to shake the news cycle. After the Auditor General revealed that $260 million was paid out in ineligible expenses claimed by power plants, opposition parties have called for a deeper review, including asking the OPP to investigate. It was further revealed that Ontario Power Generation is one of the companies that still owes ratepayers for inappropriate expenses.

New government rules forced local utilities to promote the government's programs. An Order in Council mandated that utilities must print 'Ontario's Fair Hydro Plan' and 'Bringing electricity bills down' in a "reasonably prominent location on the face of the bill insert." The so-called Fair Hydro Plan is the name the government gave to their financing scheme to temporarily (and the AG states artificially) lower hydro bills by an average of 25%. The Niagara-on-the-Lake Hydro Board issued a statement accusing the government of politicizing electricity bills.

Hydro customer debt and disconnections soared, according to new numbers quietly posted by the Ontario Energy Board. During the past four years, there's been a 19% increase in residential hydro disconnections, a 28% increase in households in arrears, and a 40% increase in customer debt owed to the local electricity distributors. North Bay Hydro wrote off more than $1.12 million in past-due bills for 2,930 customer accounts. This was 40 times greater than the $25,573 written off the previous year, for 145 accounts.

A CBC News story detailing how market-based bidding has pushed down the price of renewable electricity in places such as Mexico, got others doing comparisons with Ontario's costs. The story described 'the cheapest electricity on the planet' in Mexico, at 1.7 cents/kwh for wind power. Over the last year the rate paid to wind generators in Ontario was 14 cents/kwh. As a result, Ontario families and industries are struggling to pay amongst the highest electricity rates in North America, with rates increasing by 71% since 2008.

Conclusion

Ontario families, businesses, Legislators, and rating agencies, need to trust the government's fiscal projections. But as the FAO stated, there is reduced transparency and reliability of Ontario's fiscal plans. This needs to end. We should have one set of books in Ontario – and a government that will work to ensure the government's books are properly reported.

Key Questions

Will the government accept the fiscal assessment of the Financial Accountability Officer and publish realistic numbers in their 2018 budget?

Will the government acknowledge that much of Ontario hasn't recovered from the recession and propose turn-around solutions for our economy?

Will the government address the core causes of skyrocketing hydro rates and stop buying costly power we don't need?

Similar stories of waste, mismanagement, and scandal are disclosed in my new book, *Focus on Finance 4*.

Please go to www.fedeli.com to download your own copy of the book.

Please feel free to SHARE this report with as many people as you can!

If you would like to read previous issues of Focus on Finance, please go to www.fedeli.com or email us and we'll add you to our electronic mailing list.

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A.pdf

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
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Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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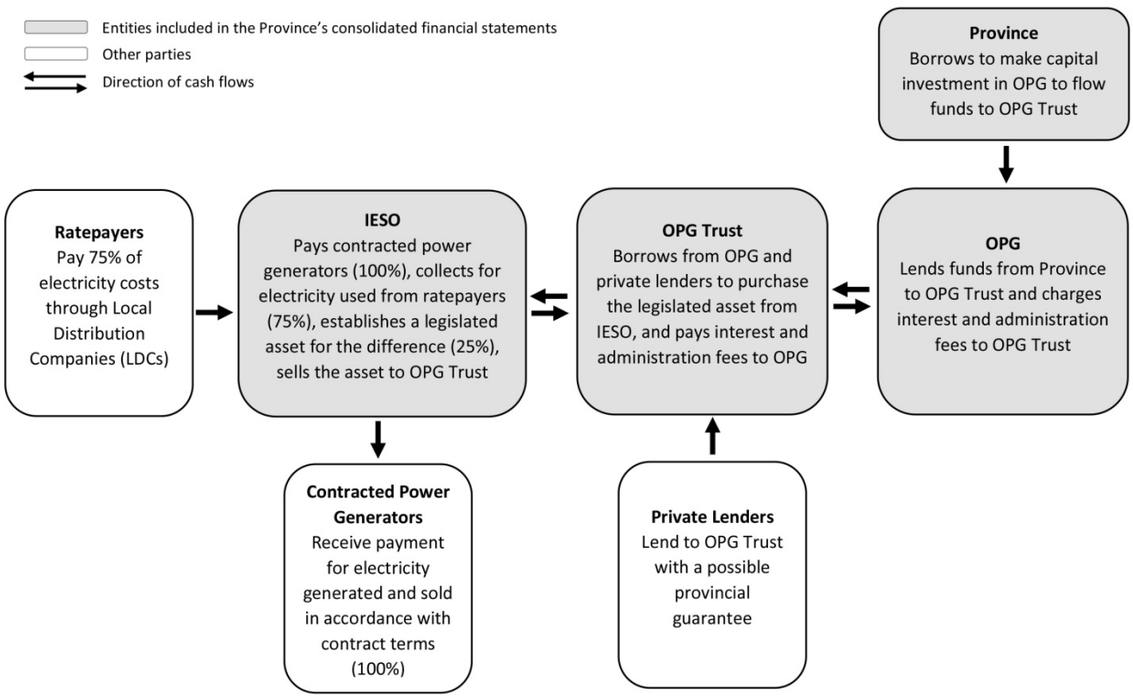
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

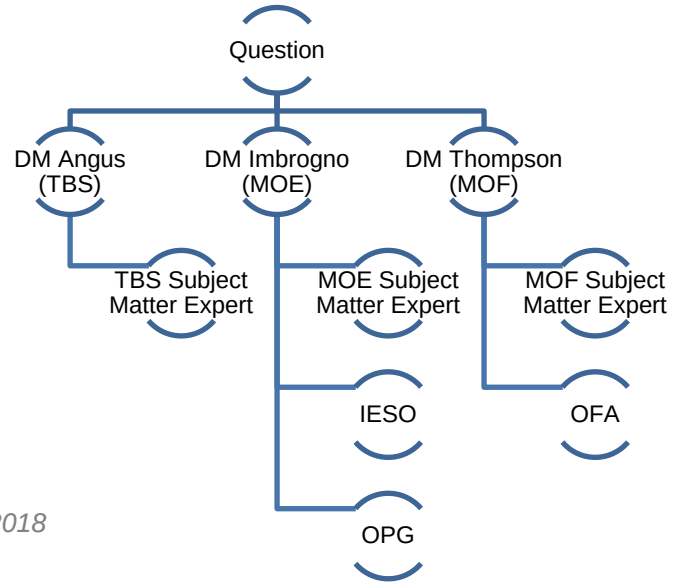
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

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Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.

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- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.
- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment and advice to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.
- We're committed to proactively working with the Office of the Auditor General.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.
- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.
- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan.**

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IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

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Pre-Election Report

- And finally, speaking to the Pre-Election Report – Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances, and shall do so before the deadline established by regulation.
- Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.
- Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.
- As always, we remain committed to working constructively with the Office of the Auditor General.
- *TBC: Placeholders*

If release is unknown:

- The province takes the Auditor General's recommendations seriously.
- The government continues to deliberate on whether and when to release a Pre-Election report.
- All officers of the legislature are being kept informed and engaged constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

If release is known:

- The government has assured us that they will provide the people of Ontario with an overview of the province's fiscal position in advance of a writ of election being issued on May 9, 2018.
- To this end, TBS, in partnership with the Ministry of Finance, is in the process of drafting the Pre-Election Report.

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- This report will present the province's estimated future revenue and expense, and other details of its fiscal planning processes, to be released within seven days of the budget.
- The report will cover the fiscal year of the upcoming 2018 Budget and the next two years.
- It will provide information on:
    - the macroeconomic forecasts and assumptions that will be used to prepare the fiscal plan for the upcoming 2018 Budget;
    - an estimate of Ontario's revenues and expenses, including estimates of the major components of revenues and expenses that will be set out in the plan;
    - details of the reserve that will be included in the plan; and
    - the ratio of provincial debt to Ontario's gross domestic product, or GDP.
- Deputy Thompson or I would be pleased to take any questions on that.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.
- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.

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- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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KEY MESSAGES

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Last updated: February 21, 2018
Includes review by Treasury Board Secretariat, Ministry of Energy and Ministry of Finance.

ROLE OF THE SECRETARY OF THE CABINET

Topic	**Government Decision-Making/Advice Provided/Personal Opinion**
Key Messages	• As the head of the Ontario Public Service, it is my role to provide my best advice to the Premier to help deliver on the government's mandate. • To this end, I rely on the expertise of the province's professional staff to ensure appropriate due diligence in providing objective advice to support government decision-making. • I would add the point here that this professional advice takes a number of forms – legal, accounting, etc. • Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table. • If the public service has provided its objective advice based on this due diligence, and if the decisions made are constitutional, and the effects of the policy are accounted for transparently, then we have fulfilled our role as public servants. • As you can appreciate, as the Secretary of the Cabinet, it is not my role to provide advice based on my opinions – it is my role to provide my advice based on objective evaluation of the policy options. • I, and my colleagues in the Ontario Public Service, will continue to ensure our due diligence to support decision-making for this policy decision and any others.
Handover	• For more information on the processes surrounding specific policy decisions, I will pass it over to: o Deputy Angus

Topic	**Relationship with the Office of the Auditor General**
Key Messages	• I speak for myself and my colleagues when I say that the public service has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring. • Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General. • I know, for example, that the Internal Audit Division works closely with the Office of the Auditor General to ensure that stakeholders are engaged in discussions regarding risks and resolution. • As public servants, we will continue to ensure appropriate due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.
Handover	• For further details on recent collaborations with the Office of the Auditor General on the topic of the preparation of Public Accounts, I will pass it over to: o Deputy Angus

PENSION ASSET ACCOUNTING

Topic	**Pension Asset Accounting**
Key Messages	• The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards. • The government sought advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel in addition to getting advice from external consultants, as well as completing additional research and analysis conducted internally. • The determination to include pension assets in the Public Accounts is based on the evidence available that the accounting that had been followed since 2001 was, and continues to be, in accordance with accounting standards for government. We have been open and transparent about how that decision was made. • The responsibility of our professional accounting staff requires them to act in accordance with their professional code of conduct by ensuring the Public Accounts present a fair and objective representation of the government's fiscal position. • The province is open to continue to discuss the matter with the Office of the Auditor General in the hopes of resolving this matter.
Handover	• For further information regarding pension asset accounting, I will pass it over to: o Deputy Angus

IESO ACCOUNTING

Topic	**IESO Accounting Changes – Market Accounts**
Key Messages	• The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. • In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. • The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. • The government supports this enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. • The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. • The province is open to continue to discuss the issue in the hopes of resolving this matter.

Handover	• For further details on IESO's decision to adopt market accounts, I will pass it over to:
	  o Deputy Imbrogno
	• For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
	  o Deputy Angus

Topic	**IESO Accounting Changes – Rate-Regulated Accounting**
Key Messages	• The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards, and is regulated by the Ontario Energy Board under the Electricity Act. • The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its internal reporting policies. • Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses that are recovered through rate regulation over time. • This change brings IESO's reporting in line with the accounting practices followed by other independent system operators in North America. • The change also provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect these amounts in the future. • The province is open to continue to discuss the issue in the hopes of resolving this matter.

Handover	• For further details on IESO's decision to adopt rate-regulated accounting, I will pass it over to:
	  o Deputy Imbrogno
	• For further details on the province's decision to accept IESO rate-regulated accounting on the province's consolidated financial statements, I will pass it over to:
	  o Deputy Angus

ONTARIO FAIR HYDRO PLAN

Topic	**Ontario's Fair Hydro Plan (OFHP) Decision-Making**
Key Messages	• As public servants, it is our role to provide our best, objective advice to support government decision-making. • For this policy matter, like any other, our professional staff ensured the proper due diligence was completed in providing their advice. • In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure this due diligence was completed. • External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and their engagement is in the normal course of business. • The proposed accounting for Ontario's Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. • The province's professional staff will continue to complete the proper due diligence and provide their best objective advice on complex transactions. • The province has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with Public Sector Accounting Standards.
Handover	• For further details on that due diligence, including the consideration of a range of implementation options and consultations with legal, accounting, financial and energy sector third-party experts, I will pass it over to: o Deputy Imbrogno

Last updated: February 21, 2018
Includes review by Treasury Board Secretariat, Ministry of Energy and Ministry of Finance.

PRE-ELECTION REPORT

Topic	**Pre-Election Report**
Key Messages	*If release is unknown:* • The province takes the Auditor General's recommendations seriously. • The government continues to deliberate on whether and when to release a Pre-Election report. • All officers of the legislature are being kept informed and engaged constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election. *If release is known:* • The government has assured us that they will provide the people of Ontario with an overview of the province's fiscal position in advance of a writ of election being issued on May 9, 2018. • To this end, the Treasury Board Secretariat, in partnership with the Ministry of Finance, is in the process of drafting the Pre-Election Report. • This report will present the province's estimated future revenue and expense, and other details of its fiscal planning processes.
Handover	• For further details on the Pre-Election Report, and how the province has been working with the Office of the Auditor General, I will pass it over to: o Deputy Angus; and, o Deputy Thompson

PROVINCE'S FISCAL SITUATION

Topic	**Debt**
Key Messages	• The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. • The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. • These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
Handover	• For further details, I will pass it over to: o Deputy Thompson

PREPARATION OF PUBLIC ACCOUNTS

Topic	**Future/Adverse Audit Opinions**
Key Messages	• It would be inappropriate for me to speculate on the type of opinion the Auditor General may issue for the next Public Accounts. • What I can say is that the province has a strong track record of producing high-quality financial reports on a timely basis. • We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards and ensure due diligence through our internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and by always bringing our best, objective professional judgment to the table. • We will continue to work constructively with the Office of the Auditor General and, at the appropriate times, keep all independent officers of the legislature informed.

Handover	• If you would like further details on the preparation of Public Accounts and the province's work with the Office of the Auditor General, I would be happy to pass it over to:
	  o Deputy Angus
	• If you would like further details on the province's fiscal management, I would be pleased to pass it over to:
	  o Deputy Thompson

Topic	**External Advisors**
Key Messages	• We will continue to ensure appropriate due diligence is completed in all objective advice that we provide to support government decision-making. • This includes completing our own internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table. This is particularly important for complex or emerging matters. • Our professional staff will continue to take a proactive approach to raising items with the Office of the Auditor General. • We remain committed to working with the Office of the Auditor General to discuss items as they arise.
Handover	• For further details on how we use external expertise to support our own internal analysis, I will pass it over to: o Deputy Angus

Topic	**Timeline of Finalization of Financial Statements**
Key Messages	• The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts. • The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. • Planning discussions for the 2017-18 Public Accounts have already begun between the Office of the Provincial Controller and the Office of the Auditor General. • As well, the Office of Economic Policy in the Ministry of Finance has been engaged in discussions with the Office of the Provincial Controller on risk considerations related to economic models used to estimate personal and corporate tax revenues in an effort to bring forward the delivery of the Public Accounts. • We remain committed to working constructively with the Office of the Auditor General.
Handover	• For further details, I will pass it over to: o Deputy Angus

OTHER TOPICS

Topic	**Records Disclosure**
Key Messages	• As public servants, it is our role to provide our best advice and conduct our due diligence to inform government decision-making. • Part of this process includes information gathering, questioning and deliberating. • The specific record you are referring to is likely part of that discussion process, where we as public servants engage in deliberations and explore the options to formulate our best advice. • It is important to keep in mind that an individual email, or trail of emails, represents a point in time discussion. • Statements contained within them are not necessarily representative of the final advice put forward or an endorsement of what the public service has identified as the best approach. • The records must be considered in the context of broader discussion and deliberation, as an exercise in due diligence, and not necessarily as a final endorsement of any particular option or approach. • As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
Handover	• For further details, I will pass it over to: o Deputy Angus

Topic	**Out of Scope**
Key Messages	• Thank you for your question. • I'm not sure that I can speak to the specifics of your question, but would be happy to pass it over to my colleague, Deputy ____, who may know more. • If we don't have the information with us today, we will make every effort to get the Committee as much information as we can.
Handover	• For further details, I will pass it over to: o Deputy Angus o Deputy Imbrogno o Deputy Thompson

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Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

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During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public

Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the “Accounts Under $50,000” category.

As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

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The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.

Optional key messages:

- IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, IESO has also requested that its external auditor fully cooperate with the audit being completed by the Auditor General.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, II will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
Optional response for TBS (IESO can speak further to their accounting.)

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
Optional response for TBS (IESO can speak further to their accounting.)

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

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It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

For more information on the province's credit rating, I will pass it over to my colleague at the Ministry of Finance, Deputy Thompson.

AG Audit of 2017 IESO Financial Statements

Key Messages

Optional key messages:

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

(Issue of "legislated accounting" is addressed in next subsection.)

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

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PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
(OPCD: "A note is being finalized and will be shared; the note was pending documents being finalized with respect to the OPG Trust and financing details [completed in early 2018]").

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe the government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that the government is "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance

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55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

14. **The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in order to allow the Treasury Board Secretariat and the Ministry of Finance officials

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to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Isn't the government just changing the rules to suit its needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

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2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?**

   Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
  - Cindy Veinot, Provincial Controller
  - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

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Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.
OPCD currently reviewing.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the province to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

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The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Treasury Board Secretariat has released all requested records.

Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

If asked about the Ministry of Energy emails:

The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

   I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

   It is important to keep in mind that an individual email represents a point in time of the discussion.

   That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

   The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. **The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?**

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As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

We will look into this question, and make every effort to get the Committee as much information as we can.

4. Why are you charging excessive fees and extending timelines? Aren't you delaying access to important information and not being open and transparent?

Consistent with other Canadian jurisdictions, Ontario's Freedom of Information legislation operates on a user-pay principle. Processing fees are required to be paid when requesting government records.

Ontario's current fees are in line with other Canadian jurisdictions.

The Information and Privacy Commissioner has supported the user-pay principle as it may help eliminate questionable uses of the act.

Treasury Board Secretariat (TBS) has an extended compliance rate of 94 per cent for freedom of information (FOI) requests in 2017. (Extended compliance is the percentage of all completed requests where the ministry issued a decision within the allowable timeline.)

TBS continues to uphold the principles of openness and transparency when considering requests for information and making more government information publicly available.

5. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals,

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confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key messages & QAs to continue to be reviewed for any Pre-Election Report updates.

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   The province remains committed to working constructively with the Office of the Auditor General.

   Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

   Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

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2. Is the government required to issue a pre-Election Report?

Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why has the government waited this long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

We continue to engage all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

The province remains committed to working constructively with the Office of the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we

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acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Presenting the province's share of jointly-sponsored pension plans in the consolidated financial statements is an accurate depiction of the net debt position. The Pension Asset Expert Advisory Panel confirmed the province's accounting is in accordance with PSAS, and the government accepted the recommendations of the Panel.

Similarly, the province's staff, along with the IESO and OPG, and have done their research, in conjunction with their external advisors, to confirm that the application of rate-regulated accounting is appropriate for application under the GAAP hierarchy. PSAS is silent on the application of rate-regulated accounting for regulated entities which follow PSAS. In such circumstances, preparers of financial statements are instructed to use professional judgment in assessing the application of other accounting frameworks that are consistent with the concepts within PSAS. In so doing, the statements will correctly reflect that the refinancing of the generating assets are due for collection from ratepayers in the future.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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For more information on the province's credit rating, I will pass it over to my colleague at the Ministry of Finance, Deputy Thompson.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.
   OPCD to confirm.

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2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   I would add that professional external advice takes a number of forms, including accounting, legal, etc., and may come from advisors who bring their experience from other jurisdictions.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

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The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

There are no plans to establish a panel at this time.

If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and

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Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.
(OPCD to confirm reference to Vol 3 of Public Accounts re: consulting contracts).

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

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The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of

the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and were prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

Relationship with the Auditor General

4. What is your relationship with the Auditor General?

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

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2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**

   To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

   For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective

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sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

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Other

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   Treasury Board Secretariat plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   The province provides guidance to consolidated entities on the accounting frameworks it applies. For example, Office of the Provincial Controller Division (OPCD) established a requirement for other government organizations to adopt

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Public Sector Accounting Standards (PSAS) for their reporting framework with the introduction of International Financial Reporting Standards (IFRS) in 2011, while Government Business Enterprises were directed to IFRS.

Generally speaking, the province does not direct how the standards are applied. In one case, the province did provide direction to the school board sector to clarify an interpretation on a particular PSAS standard to ensure consistency across the sector. But more broadly, the province does not direct accounting policies to its consolidated entities.

Where policies are not consistent with those of the province, there is an adjustment that is made to align those results with the province. An example of that would be with respect to accounting standards that may be applicable for other government organizations, but not for the province. A new standard relating to financial instruments would be an example of that.

Consolidated organizations have adopted those standards, but that standard is not applicable until 2019, as currently planned by PSAB, for senior governments. In those cases, the province wouldn't direct government organizations not to report financial instruments, but would make those adjustments when those organizations to report to align those differences in reporting.

Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith demanded that the government add Hydro One employees back onto the list. Will you do this?**

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Only public sector employees are included on the Sunshine List.

As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

- Disclosure of board-approved annual financial statements along with quarterly updates;
- CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
- Shareholders' meetings requirements and rules;
- Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,

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- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to

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balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

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2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the

digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

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3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

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1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;

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- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the

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search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets.
- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

Strategic investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180223.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the public service.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Associate Deputy Minister Karen Hughes in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the Province's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

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- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Associate Deputy Minister Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

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What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the Province has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Financial Statement Discussion and Analysis section, FSD&A as we call it, that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the Province to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results provide a relevant comparison across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Public Accounts also include the consolidated financial statements.
- The financial statements present the assets, liabilities, revenue and expenses of all the organizations within the government reporting entity.
- The government reporting entity includes all of the activities of the consolidated revenue fund as well as all the organizations that are controlled by the Province.
- These organizations included provincial agencies like Metrolinx and cancer Care Ontario, hospitals, school boards and colleges.

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- Also included are government businesses enterprises, including the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, Hydro One and Ontario Power Generation.
- The financial statements present the revenue sources for the province such as taxes, federal transfers and other non-tax revenues, income from government business enterprises and other revenue from hospitals, colleges and school board.
- Finally, they include all the expenses of the Province.
- The consolidated statements show the actual Provincial income and spending for the fiscal year, compared to what was planned in the budget for that year.
- This is a quick way to see if the planned spending activities planned in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's financial statements so anyone can see at a glance if revenue or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of provincial organizations, government business enterprises and other financial statements that are consolidated into the Public Accounts.

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- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.
- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the Province to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to transfer payment recipients in excess of $50,000 per year are included here as well, including payments to hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across provincial ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

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- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other Provincial entities to provide their financial statements to us.
- To that end, we work closely with ministries to ensure information is shared as quickly as it is available.
- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.
- TBS also works with other ministries through the Internal Audit Division that leads, among other things, an audit of all financial IT systems.
- This audit overviews financial systems like the Integrated Financial Information System, or IFIS, and the Workforce Information Network, or WIN.
- Reviewing these systems is a critical part of the Public Accounts process as they make up a major part of the Certificate of Assurance process that ensures financial data that TBS gathers is accurate.
- Timely completion of this audit is crucial to the timely release of the Public Accounts, so TBS works closely with ministry partners to complete this process.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General presents an audit opinion on the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.

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- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the Province was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.
- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

Optional Transition to Cindy Veinot, Provincial Controller

- To give more detail on what guides our Public Accounts accounting decisions, I will turn it over now to the Provincial Controller, Cindy Veinot.

What Guides Public Accounts Accounting Decisions?

- Thank you, ADM Hughes.
- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the Treasury Board Secretariat formulates its position on accounting methods.
- I'm only providing a high-level explanation, if you have further questions I'm happy to pass it over to the Provincial Controller for more details.

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- Our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.
- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the principles that all provinces in Canada follow in their accounting and reporting practices.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about reporting transactions for public sector entities.
- But because accounting can be complex and new transactions can emerge, the standards do not always provide explicit guidance on how to account for specific transactions.
- It is sometimes necessary to look to other accounting standards and frameworks to support the preparation of the Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.
- To quote directly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*

[1] Public Sector Accounting Standards Handbook, PS1150.07

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- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*
- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- TBS also considers positions taken on accounting issues by other senior governments in Canada.
- We are in regular contact with the provincial controllers and staff from other provinces and the federal government.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.
- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.

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- Taking into account the expertise and advice we have access to, we make a decision on how the Province should present its financial statements that is in accordance with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

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2. Long-Form Member Question_Open Government and Public Accounts_20180222.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the Treasury Board Secretariat making sure that the Public Accounts are open and accessible to everyone in Ontario?

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Last Updated: Feb. 22, 2018
Reviewed by: Bryant Sullivan, Open Government Office, OPCD, OTB, Sofie DiMuzio – DMO Pending
Final OPCD Review Pending

ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing provincial information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.

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Final OPCD Review Pending

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- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.
- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the public service turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

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Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to provincial data by proactively sharing provincial datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all provincial data open by default, and the

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International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the public service to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the Province's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure provincial spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.

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Final OPCD Review Pending

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- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a "just the essentials" look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the "just the essentials" Public Accounts page, they can find highlights of the province's spending and a simple breakdown of the province's revenue.

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- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the Province releases the Public Accounts each year, the value of this report to Ontarians, and how the Public Accounts tie into the Open Government initiative.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader's guide to the Public Accounts.
- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.

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- These tables are found on the Ontario.ca Public Accounts page dedicated to Volume Two of the Public Accounts.
- The data is divided into three tables, sorted by provincial organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular entity could type the organization's name into the search bar and have the results show up right away.
- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all provincial spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of provincial spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how provincial spending fits together to make up the entire amount that the Province spends each year.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.

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- The Treasury Board Secretariat codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- TBS also ensures that all documents that are available for download are fully accessible.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.
- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the Province compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

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3. Long-Form Member Question_Engagement Between TBS and OAGO_20180223.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

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Last Updated: Feb. 21, 2018
Reviewed by: Bryant Sullivan, OPCD, OTB, Sofie DiMuzio. Final OPCD review pending.

ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the Province is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the Province and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

How OPCD Works with OAGO Generally

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- For example, one of the things that enables the Auditor General to have confidence in the results that are presented in the Public Accounts is the robust financial controls that are in place across the public service.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, signed by deputy ministers from every ministry, each ministry's Chief Administrative Officer and each Director of Finance.
- The Certificate of Assurance attestations is used to support the Treasury Board Secretariat's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the Province is operating transparently when preparing its finances, including the Public Accounts.
- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.

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- Another example of this collaboration is an annual audit process undertaken by the Corporate Financial Assurance Audit team of the Treasury Board Secretariat.
- This audit evaluates the reliability of key controls over two key financial systems: the Integrated Financial Information System, known as IFIS, and the Workforce Information Network, known as WIN.
- The audit forms a part of the Certificate of Assurance attestation that I just described and is also provided to the Office of the Auditor General to help inform the office's Public Accounts audit.
- The staff at the Corporate Financial Assurance Audit team also correspond with the Office of the Auditor General on the results of the Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- Staff from the Office of the Provincial Controller and the Auditor General's Office have discussions throughout the year on matters that may impact the Public Accounts.
- The discussion becomes more frequent late in the fiscal year, prior to the Province's fiscal year end.
- In these meetings, representatives from both offices discuss areas of audit focus and what information is required for the audit to go smoothly.
- The Treasury Board Secretariat also reviews the Audit Planning Report produced by the Office of the Auditor General at the start of the audit, and works with the office to ensure the completeness of the audit plan.
- Reviewing the Audit Planning Report provides an opportunity for TBS to identify potential areas of improvement for future Public Accounts.

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- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.
- These meetings continue throughout the audit, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller also provides analysis related to any items identified while preparing the Public Accounts.
- The Treasury Board Secretariat also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- The offices also work toward finding resolution on how matters should be best reflected in the consolidated financial statements.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the Treasury Board Secretariat time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.
- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the Province's records.

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Examples of Success in this Approach

- The Province and the Auditor General work closely to make sure that the Province is accountable when it comes to Ontario's finances.
- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the Province made is in how third party revenues are shown in the consolidated financial statements from hospitals, school boards and colleges, referred to collectively as the broader public sector, or BPS, in the Public Accounts.
- Third party revenues from the BPS, such as tuition fees, patient fees, research grants and donations, have been part of the Public Accounts since 2005-06 when it was recommended they be consolidated by the Office of the Auditor General.
- Previously, third party revenues were not reported separately as revenue, but were included against expenses reported by the hospitals, school boards and colleges.
- Starting in 2016-17, about $7.9 billion of third party revenues are now shown as a separate line as part of total revenues in the Public Accounts.
- Now, all assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear in their corresponding categories in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which was $591 million in 2016-17, has been combined with overall provincial interest expense.
- This debt used to be included in the expenses of the respective ministry that oversee the hospitals, school boards and colleges, namely Ministry of Health and

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Long-Term Care, Ministry of Education and the Ministry of Advanced Education and Skills Development.

- It's important to note that this presentation change does not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party revenues in their accounting under Public Sector Accounting Standards.
- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government business enterprises.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.
- Ontario is now using the IFRS standards to account for its government business enterprises in the Public Accounts.

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- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a government business enterprise is.
- When I say government business enterprise, I mean government organizations that:
    - Are legal entities that are separate from the Province with the power to draw up and sign contracts in their own name. Government business enterprises can sue on their own behalf and be sued.
    - They have the financial and operating authority to do business without constantly seeking government permission.
    - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
    - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- The change implemented for 2016-17 related to rate-regulated government business enterprises.
- Rate-regulated government business enterprises are permitted to report under Generally Accepted Accounting Principles for rate-regulated companies in the United States in their own financial statements.
- This permission is in accordance with guidance provided by Chartered Professional Accountants Canada.
- Under Public Sector Accounting Standards, however, all government business enterprises must be reported under IFRS standards.
- Because of this difference between the government business enterprises internal accounting and the accounting they provide to the Province, it is necessary to make adjustments for any differences between the US Generally Accepted Accounting Principles and IFRS standards.
- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.

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- The other government business enterprises that are included in the Public Accounts – the Ontario Lottery and Gaming Commission and the Liquor Control Board of Ontario – use IFRS for their statements, so no adjustments are required.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.
- In previous years, the Province has used the unadjusted statements of Ontario Power Generation and Hydro One prepared in accordance with Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no significant change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.
- In the future, the Province will continue to follow the IFRS standards for any rate-regulated government businesses.

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- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the Province has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the Province wants to ensure that the Public Accounts is ready to be released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.
- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to allow the Ministry of Finance to provide personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.

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- Many of the changes that the Province has suggested are supported by the Auditor General, and public servants work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the audit of internal financial systems and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

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4. Long-Form Member Question_IESO Use of Market Accounts_20180223.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

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QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the public service makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

Last Updated: February 23, 2018
Reviewed by: Bryant Sullivan, OPCD, Sofie DiMuzio – DMO review pending

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather to understand the sufficiency of the processes and controls in place at the agency to ensure that appropriate accounting policies are chosen and followed.

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- In the case of IESO, management made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's audit committee, its board of directors and its third-party independent external auditor.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO made the decision to recognize its market accounts assets and liabilities – the balances that exist as a result of $17 billion in transactions – in its financial statements.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken delivery of electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for producing the electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

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Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. Our involvement is on the accounting side of things.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we expect organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the financial statements that are provided to us.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.
- The Office of the Provincial Controller agrees with this change because it is in accordance with the Public Sector Accounting Standards.

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Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO is a counterparty to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- Without reflecting the accounting for the transactions on the financial statements of the IESO, there are a set of transactions that are being recorded only in a separate set of accounts that are not presented in the financial statements of the entity.
- Based on IESO's survey of accounting practices for the other independent system operators in North America, the vast majority of them recognize the balanced owing from and to the system participants.
- IESO settles the market similar to what the Toronto Stock Exchange does with respect to trades between buyers and sellers of stock – and it too recognizes the amounts due from and due to the market participants in its financial statements.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.
- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.

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- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would be invisible in the Province's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

Conclusion

- So in conclusion, I'll say again that the Province supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.

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- The Province accepts the financial results presented from government agencies like the IESO, provided they follow the Public Sector Accounting Standards.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- Thank you.

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5. Long-Form Member Question_Pension Asset Accounting_20180222.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the Province I would welcome that as well.

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ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the Province continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the Province released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue.
- The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the Province as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the Province's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the Province has been using in Public Accounts since 2001, and so the Province was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

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- To allow for the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The Treasury Board Secretariat then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the Province that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.
- The Province has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.

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- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one.
- External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the Province on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the Treasury Board Secretariat announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the Province as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.
    - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

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- The Province asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The Province accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as provincial assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the Province's decision to list these pension plans as assets.
- The panel needed to determine whether the Province could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the Province and the employee sponsors.
- This future economic benefit can be realized by reducing the contributions the Province makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the Province controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In

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the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the Province can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.
- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.

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- It is important to note that the Province is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the Province could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the Province to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor, only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.

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- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the Treasury Board Secretariat's position on these pension plans, TBS also sought out further advice.
- The Province sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.
- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

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- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The Province's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the Treasury Board Secretariat determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the Province is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the Province arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- Public Sector Accounting Standards do not say that the Province must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the Province and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the Province

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following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.

- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

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Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with some of the highest distribution charges.

- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

  - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

    - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

    - In January this year, over 220,000 OESP credits were issued to households across the province.

  - Establishing the new First Nations Delivery Credit.

    - Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and

recognizes First Nations' contribution to the provincial electricity system.

- Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- The government has aligned eligibility for Global Adjustment (GA) refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for the 8 per cent rebate are also eligible for Global Adjustment (GA) refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

  - All RPP consumers receive Global Adjustment (GA) refinancing through the Ontario Energy Board's (OEB) RPP rate setting process.

  - Consumers not participating in RPP but who are eligible for Global Adjustment (GA) refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked

bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

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2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

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It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio,

Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;

5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and

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5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees,

which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

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These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

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There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- The 2017 Fall Economic Statement forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.

- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.

- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Debt_v16 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- The 2017 Ontario Economic Outlook and Fiscal Review forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."

- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.

- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.

- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Fair Hydro_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

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B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

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AG 2017_News Release_Chapter 2.stub.pdf

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AG 2017_Summary_Chapter 2.stub.pdf

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AG 2017 Report on Fair Hydro Plan.stub.pdf

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FW_ SCOPA - Logistics Note for Attendees + Upda...(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Armstrong, Hillary (ENERGY)
Subject:	FW: SCOPA - Logistics Note for Attendees + Updated Materials
Date:	February 27, 2018 5:10:00 PM
Attachments:	SCOPA_Day of Logistics_20180227.docx SCOPA Briefing Binder_Feb 27 2018.zip

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From: Nelson, Dane (TBS)
Sent: February 27, 2018 5:00 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>
Cc: Ue, Allison (TBS) <Allison.Ue@ontario.ca>
Subject: FW: SCOPA - Logistics Note for Attendees + Updated Materials

Hi Martin and Dave,

Please find the latest versions of the SCOPA materials attached and a summary of logistics for tomorrow.

The logistics document includes:

- A list of attendees, including suggestions on who is present in the Committee Room (Amethyst Committee Room 151) vs in the Anteroom (Committee Room 2)
- Other details, such as Wi-Fi access and a map of the Legislature

Please remind attendees to have their access card with them tomorrow. They will need to present it at the security desk upon arrival at the Legislature.

The following external attendees have already been registered with security to speed up the sign-in process. We recommend they arrive early to allow about 15 minutes for the security desk to issue their visitor badges.

OPG:
- Ken Hartwick, John Mauti

IESO:
- Peter Gregg, Kimberley Marshall

Staff can meet in the anteroom (Committee Room 2) at 12:00pm to settle in. They can leave their jackets and bags in this room during the appearance. We will also have 'runners' that can escort them to the Committee Room (Amethyst Committee Room 151) as needed.

Revisions since last update

Tab 1_____Agenda & Logistics Overview

Tab 2_____Strategic Approach

Tab 3_____Roles and Responsibilities Outline

Tab 4_____Summary Status Table

Tab 5_____TBS Deputy Angus Opening Remarks (updated)

Tab 6_____Comprehensive QAs

- Secretary of the Cabinet Key Messages (updated)
- Treasury Board Secretariat (updated)
- Ministry of Energy (updated)
- Ministry of Finance

Tab 7_____Long-Form Member QAs

- Treasury Board Secretariat (updated)
- Ministry of Energy
- Ministry of Finance
    - (Q2 Credit Rating updated)
    - (Q3 Debt updated)

Tab 8_____Tips for Presenting at SCOPA

Tab 9_____Auditor General Reports

- 2017 Annual Report: Chapter 2
- 2017 Special Report on the Fair Hydro Plan

Tab 10_____Environmental Scans

- Treasury Board Secretariat
- Ministry of Finance

Tab 11_____Reference Materials

- Government Response to Auditor General's 2017 Annual Report
- House Book Notes

Regards,

Dane Nelson, Senior Policy Advisor
Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

SCOPA_Day of Logistics_20180227.pdf

DAY OF LOGISTICS

SCOPA: Amethyst Room (Committee Room 151)
Anteroom: Committee Room 2 (Capacity: 20-25 people)

- CCTV details
  Channel 25 for Amethyst Room

- WiFi details

SSID:	AssemblyGuests
User ID:	chamberguest
Password:	january2018

Map:

1. Amethyst Room (Committee Room 151)
2. Anteroom (Committee Room 2)
   *NOTE: Next to the Lieutenant Governor's Suite
3. West doors

Wednesday, February 28, 2018

Time	***Activity***
12:00 p.m.	Attendees are welcome to meet in Anteroom (Committee Room 2)
12:30-3:00 p.m.	SCOPA hearing in Amethyst Room Amethyst Room attendees include: • At the table (3): - Helen Angus, TBS Deputy Minister - Serge Imbrogno, Energy Deputy Minister - Scott Thompson, Finance Deputy Minister • Behind the table (18): CAB: - Steve Orsini, Steven Davidson, Lynn Betzner, Boafoa Kwamena TBS: - Karen Hughes, Cindy Veinot, Sofie DiMuzio, Bryant Sullivan, Gabrielle Gallant Energy: - Steen Hume, John Whytock OPG: - Ken Hartwick, John Mauti IESO: - Peter Gregg, Kimberley Marshall Finance: - Tim Shuurman, Jenna LeBlanc OFA: - Gadi Mayman Anteroom attendees include: TBS: - Mark Donaldson Energy: - Tim Christie OFA: - Ken Kandeepan Floaters: - Sebastian Prins, Alisha Tharani, Erin Ovenden

SCOPA Briefing Binder_Feb 27 2018.pdf

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SCOPA Cover Page_20180227.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER

Updated: February 27, 2018

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Tab 10_Environmental Scan.pdf

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Tab 11_Reference Materials.pdf

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Attachment B. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

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Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

- Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

- There were five questions posed to Minister Sandals:
  - Three were on government advertising
  - One was on the government's **relationship with the Auditor General**

Q. Smith Cross: Minister Sandals, the auditor says it takes fortitude for her to address significant issues without fear of push-back and reprisal. **Has there been push-back and reprisal for the auditor general?**	Sandals: Absolutely not. I mean certainly at Treasury Board Secretariat, we work with her very closely. There are all sorts of projects that we've worked on together. For example, if you were to read through the fine print in the fall economic bill that's before the House right now, you would see that the first report she did on agency annual reports, we actually have in that legislation the follow up on all the recommendations that she made on that report back in 2015. **So my office does work with her quite closely.**

  - The last question was inaudible, but the answer referenced **Public Accounts**

Q. Smith Cross: (Inaudible)	Sandals: Well, I...you'll have to ask her that because I...that's that's not something I can speak to. I mean, I think it's clear that there are some issues where we have some **differences in accounting.** Those have been discussed, you know, extensively previously in public venues. A lot of you have written about pensions and fair hydro accounting and various issues. **So those are ongoing discussions that we have with the auditor.** I don't think there's any particularly new information in her chapter 2 on public accounts. **Those are issues that you are already all aware of previously, as were we**. Actually, the think that is really new and interesting about the public accounts isn't so much in the auditor's report, **as it was in the PC platform that came out, where the PCs seem to have adopted our accounting. They agree we have a balanced budget. They've used our pension accounting. They've assumed our accounting for the hydro sector.** And, in case you think I made this up, Kevin Page who is the former federal budget officer, who reviewed the Conservative platform, says that he believes that using the economic and fiscal assumptions from the Ontario fall economic statement is a reasonable starting point for costing an election platform. **So he's acknowledging the fact that our accounting, in the fall economic statement is, in fact, the accounting that has been adopted by the Conservative Party.**

- **PC Response**
  - Introductory remarks focused generally on waste and mismanagement.
  - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

- **NDP Response**
  - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
  - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
  - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
  - 41% of articles referenced TBS-related issues
  - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
  - **The government's relationship with the Auditor General**
  - **Pre-election report**
  - **Distrust of government numbers/"two sets of books"**

  Recent articles include:
  - Lorrie Goldstein: **"Clock ticking for Liberals as pre-election finance report deadline looms"** (Toronto Sun, December 16, 2017)

    - **Minister Sandals spokesperson quoted:** "A spokesperson for Treasury Board President Liz Sandals told the Sun in an email that **Sandals and Lysyk have, "spoken at length about the Pre-Election Report process, and agree that the past format and process won't work during the 2017 election cycle, given the proximity of the spring budget season to the early summer election date."**

      The email added: "In conversation with the Auditor, Minister Sandals has emphasized her commitment, and the commitment of our government, to openness and transparency. We will continue to work collaboratively with the

Office of the Auditor General to determine how we can best ensure that this commitment is fulfilled."

- Jim Warren: **"The role of auditor general is shifting in troubling ways"** (Toronto Sun, December 16, 2017)

  - "However, the role of the auditor general today has increasingly become one that embarrasses government and serves to point a finger of blame rather than show a new direction for the better. **This new role is actually further eroding trust in government and making matters worse.**

    We saw this trend alive and well last week in Ontario as provincial Auditor General Bonnie Lysyk released her annual report and held a media availability on Ontario Premier Kathleen Wynne's Liberal government.

    Lysyk identified some areas that the government must act and provided some useful information for the public. **But in some specific areas, she pushed the boundaries of what is an independent audit versus what should be kept in the political arena.**

    This continues a trend in Ontario that former ombudsman Andre Marin started when he took his role as an independent officer of the legislature and made it political. Marin was accused of crossing the boundary from independent officer of the legislature into partisan politics. When he eventually ran as a Progressive Conservative against the Liberal government he criticized, Marin lost."

- Lorrie Goldstein: **"Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted"** (Ottawa Sun, December 17, 2017)

  - "Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister Charles Sousa that the government's books are now balanced and will be for at least the next two years, **the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.**

    While the government predicted a balanced budget for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict

the actual deficit this year will be in the range of $4 billion to $4.5 billion."

Public Accounts

- **Media Coverage**
  - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
  - Government key messages were picked up 100% of the time
  - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
  - Top themes in the first 24 hours of media coverage of Public Accounts 2016-17:
    - **Disagreement between the government and auditor general**
      - "Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards." (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books." (David Reevely, "Ontario government's rosy financials grow in a bed of BS," Ottawa Citizen, Sept. 7, 2017)
      - **"Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)

    - **Ontario's fiscal position: government debt and deficit**
      - Canadian Press coverage focused on Minister Sandals' quote from the media event: "The public wants to know, are you managing your deficit?" she said. **"Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Conservative finance critic Vic Fedeli says it is clear that the provincial debt is "out of control." He said in a statement Thursday that the Liberals are thumbing their nose at the legislature's independent experts and presenting their own version of the province's public accounts." Shawn Jeffords, "Ontario says 2016 deficit was $991M, auditor general says

government 'understating' deficit," The Canadian Press, Sept. 7, 2017)

- **The government's alleged continued dismissal of watchdogs**
  - "Auditor general Bonnie Lysyk said Thursday the government "significantly understated" its deficit - $1.4 billion in her view - while the Financial Accountability office this week called the Liberal plan to reduce the debt burden "unlikely."" (Christopher Reynolds, "Ontario's deficit drops to $1 billion, though fiscal watchdogs have a bone to pick," Queen's Park Briefing, Sept. 7, 2017)

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

On February 20, 2018, during Concurrence in Supply, MPP MacLeod referenced the Auditor General's annual value-for-money audits:

> "But one of the things that I would like to do as I conclude is to talk a little bit more about value-for-money audits in the province of Ontario and where we can find waste. We know, for example—**Speaker, as you know, I'm the Vice-Chair of the public accounts committee and I'm the Treasury Board critic, as well as the finance critic—that one of the things that we see each and every time that there is an auditor's report is, sometimes, billions in waste.**
>
> Before we left at Christmas, a few days before we left and recessed for the time being, the Auditor General came out—an independent officer of this Legislative

Assembly—and indicated to all of us that there was at least $1 billion in waste throughout the system that could be absorbed in other ways and in better spending in the province of Ontario for programs."

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD

OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Stakeholder reports and commentaries (e.g. Ontario Chamber of Commerce Economic report; FAO report on Hydro One; Fraser Institute commentaries on fiscal situation)
- Third Quarter Ontario Finances
- Executive compensation (e.g. OPG & IESO)
- IESO/OPG "inappropriate expenses"
- IESO Audit Committee meeting
- OPG Financing of Regulatory Assets

Recent TBS SCOPA Appearances

November 15, 2017
2016 Annual Report, Auditor General
Consideration of chapter 5, Review of Government Advertising

May 31, 2017
2016 Annual Report, Auditor General
Consideration of section 4.03, Information and Information Technology General Controls

October 5, 2016
2015 Annual Report, Auditor General
Consideration of chapter 2, Public Accounts of the Province
- Report published on May 17, 2017

April 13, 2016
2015 Annual Report, Auditor General
Consideration of chapter 5, "Toward Better Accountability"

- Report published on December 5, 2016

SCOPA - MOF Issues Scan (Feb 2018).pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MINISTRY OF FINANCE – ISSUES SCAN

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Hydro One sale will lead to long-term costs for Ontario: Financial Accountability Office

- **Canada - National Post**
- **Mon Feb 12 2018**
- **Section:** Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - Taxpayers would have saved $1.8 billion if the **Ontario government** had taken on traditional **debt** to fund infrastructure projects instead of partially privatizing Hydro One to pay for the work, the province's fiscal watchdog said Monday.

In a report that examined the Liberal government's sale of shares in the utility, the Financial Accountability Office examined both scenarios and found the cost implications were clear.

"Over the long term, the FAO estimates that the province's net **debt** will be higher as a result of the partial sale of Hydro One when compared to an alternative of borrowing to finance an equivalent amount of infrastructure investment," said Jeffrey Novak, chief financial analyst for the FAO.

Hydro One went public in November 2015, with the province saying it planned to use the sale of shares to fund transit and infrastructure projects. By December 2017, the province had sold off 53 per cent of its stake in the company.

Ontario Premier Kathleen Wynne speaks to media at the Legislative Assembly of Ontario in Toronto on Thursday Jan. 25, 2018.

The FAO analysis said that in the first three years after the partial privatization, the province saw a total profit of $3.8 billion on the deal.

But by 2018-2019, the FAO forecasts a loss of $1.1 billion because of one-time charges and fewer dividends as a result of the province's smaller stake in the company.

The FAO report also warns that Hydro One's $4.4 billion deal to buy U.S. energy firm Avista will "dilute" Ontario's shares of Hydro One ownership from 47 per cent to 42 per cent.

"To purchase Avista Hydro One is issuing convertible **debt** to the folks who own Avista,"Novak said. "When the purchase is completed that convertible **debt** will be transformed into shares of Hydro One. The province will just have less of a percentage of overall shares outstanding in the company."

The Electricity Act, which regulated the sale of Hydro One shares, requires the province to take steps to ensure that its ownership stake remain no lower than 40 per cent. That

means if further purchases shrink Ontario's ownership of the company it will have to buy back shares.

Energy Minister Glenn Thibeault said the government remains the largest single Hydro One shareholder and the company continues to be subject to provincial oversight.

"Hydro One's rates will continue to be regulated by the Ontario Energy Board - the province's independent energy sector regulator," he said. "In fact, our government passed legislation that has further strengthened the board's oversight.

As of December 2017, the province had raised an estimated $9.2 billion by selling Hydro One shares, the FAO said. The Liberal government has said they plan to use $5 billion to pay down leftover **debt**, while the remaining $4 billion would fund transit and infrastructure projects.

NDP energy critic Peter Tabuns said the FAO's analysis backs up his party's argument that the utility's partial privatization is bad for Ontarians. The NDP have promised to buy back shares of Hydro One and return it to public ownership if elected in the spring election.

"We're going to have less revenue in the future (from Hydro One)," he said. "That means less money for schools and hospitals. We're going to have higher **debt** charges than we would have had if we'd simply borrowed the money … In every aspect, this has been a bad deal for Ontarians."

PC finance critic Lisa MacLeod said the Hydro One share selloff has helped the government balance its budget before the election but will have consequences down the road.

"This was short-term gain for very long-term pain," she said. "This is not a good deal for Ontarians."

- **Length:** 596 words
- **Tone:** Neutral
- **Reach:** 607500

They'll be the debt of us; Liberals go on $7-billion election-year spending spree

- **Toronto Sun**
- **Tue Feb 6 2018**

- **Page:** A6
- **Section:** News
- **Byline:** James Wallace
- **Source:** Toronto Sun

How bad is Kathleen Wynne's credit-card addiction? Prepare to be depressed. Ontario Liberals ran deficits in 11 of their past 14 budgets, almost 80% of the time, a new Fraser Institute report by Ben Eisen reminds us.

Liberal deficits ranged from $991 million to $19.3 billion annually and averaged $8.6 billion annually while Wynne and Dalton McGuinty held office.

Over the same period, Liberal program spending - excluding **debt** - increased from $70 billion to $130 billion, an 84.6% increase, almost double the 44% growth necessary to offset inflation and population growth.

And now, in an election year, Wynne's government has massively hiked spending - by $7 billion over last year.

It's difficult to see that as anything but the craven, self-serving tactic of a government that cares primarily about clinging to power and little about the damage living beyond our collective means causes the province, or the **debt** it's heaping on future generations.

Over the past several months, the Wynne government has rolled out a succession of free-for-all campaign promises - free tuition, hydro rate cuts, free prescription meds for youth.

They are, of course, not free, and in fact come with an onerous price tag.

Provincial net **debt** has increased dramatically since the Liberals were elected in 2003, the Fraser report notes, currently some $302 billion or $21,500 for every soul in the province. Net **debt** stood at $138 billion when the Liberals took power.

"Between 2003 and 2015, Ontario added more **debt** either per person or relative to the size of the economy than any other province in Canada and by quite a bit," Eisen said.

Following a period of "modest" spending restraint over the past four years (since the last election) the Liberals have returned in an election year where they're dogged by scandal and lousy poll numbers to spending money they don't have and piling on **debt**.

"The government, by its own accounting, is adding **debt** and the pace of date accumulation hasn't even really slowed down in the past few years," Eisen said.

And that accounting is pretty loosey-goosey.

Ontario's Financial Accountability Office concluded last year that the Liberals were hiding a $4-billion deficit this year, while claiming they would balance the province's books. The FAO estimated Ontario's actual deficits at $4 billion this year, $7 billion in 2019, $9 billion in 2020 and almost $10 billion in 2021; Provincial Auditor Bonnie Lysk

calculated the Liberals'25% hydro rate cut will cost $4 billion in unnecessary interest payments, improperly took $26 billion off the province's books and will drive up rates for 30 years.

Eisen, in his report "Repeating Past Mistakes? Spending Restraint Critical for Ontario's Fiscal Health" suggests the cold, hard facts clearly show the Liberals are living off a credit card.

"No matter how you slice it, no matter whose accounting you want to use, Ontario's government is continuing to rack up **debt** to the tune of about $10 billion a year," he said.

"So the notion we're making huge fiscal progress is wishful thinking at best."

The most obvious consequence of higher **debt** is higher **debt** payments, which are poised to hit $12 billion annually, eating up eight cents of every dollar in government revenue.

In context, families deal with this issue on a daily basis. The higher your house mortgage the less you have to spend on food, lights and other necessities - in Ontario's case, health care, education, transit, social housing and other critical services.

Neither is Ontario's economy growing as it should, as the rest of Canada is.

From 2003 to 2015, inflation adjusted per-person economic growth in Ontario averaged 0.5% annually, about half the growth rate in the rest of Canada.

Meanwhile, Ontario now has the highest hydro rates in Canada, the highest auto insurance premiums, the highest sub-sovereign **debt** in the world, and a declining auto and manufacturing sector.

Had the Liberals managed modest restraint over the term of government, more in line with GDP growth and inflation, program spending last year would have been $20 billion to $30 billion lower and the government would have been sitting on a $19-billion to $28-billion surplus, Eisen calculated in his report.

It was the road not taken, and all Ontarians will wear the price of that for years to come.
jawallace@postmedia.com

- **Length:** 680 words
- **Tone:** Negative
- **Reach:** 171076
- **Illustration:** / Sources: **Ontario, Ministry Of Finance** (2003-2017) And **Ontario, Ministry Of Finance**(2017)-Fraser Institute Graphic; / (See hardcopy for photo); / WYNNE Hiked spending;

Ontario's finances are still a mess

- **Toronto Sun**
- **Wed Jan 10 2018**

- **Page:** A15
- **Section:** Comment
- **Byline:** Beneisen
- **Source:** Toronto Sun

Last spring, Ontario Finance Minister **Charles Sousa** tabled a **balanced budget** for 2017/18, the province's first since 2007/08.

The Wynne government frequently points to this projection as evidence that it's managing public finances effectively.

However, there are many reasons to treat such claims with skepticism.

For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits.

Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.

There are still more reasons to be concerned about the health of Ontario's finances.

Among the most important and under-discussed is that to shrink the deficit in recent years, the Wynne government has relied heavily on large annual increases in transfer payments from the federal government.

Despite constant tension between the McGuinty/Wynne governments and the Harper government in Ottawa during the latter's time in office, in reality, federal transfer payments to Ontario have grown briskly in recent years.

Specifically, in 2009/10, the federal government sent $14.3 billion in major transfers to Ontario.

This number has steadily swelled and will reach $21.1 billion this year - a nominal increase of 48% in eight years.

That's a far faster increase than what would have been necessary to offset inflation and population growth and far faster than provincial economic growth.

In fact, holding all else constant, if the growth of federal transfers to Ontario had been in line with either of these economic indicators, the province would still face a significant

deficit today.

In short, rapid growth in transfer payments is an important and frequently overlooked reason for Ontario's recent deficit reduction.

One reason that overall transfers to Ontario are up is that the province has, since 2009/10, received equalization payments.

To simplify slightly, equalization is a federal program that gives money to lowerincome provinces to help them fund public services.

Ontario became eligible for the program for the first time in history in 2009/10 and has remained eligible since.

Equalization payments to Ontario peaked at $3.3 billion in 2012/13 and have come down gradually, but they remain a source of revenue.

This year, the government is receiving $1.4 billion through the equalization program.

In total, the province has received $18 billion in equalization since 2009.

Again, without this historically unprecedented help from Ottawa, the recent runup in Ontario's **debt** would have been even worse.

Recently, the federal department of finance revealed equalization payments for 2018/19, confirming Ontario will indeed continue to receive them.

In other words, the province will retain its status as a lowerincome, "have-not" province, relying on equalization payments to help fund programs for another year.

And yet, the Wynne government frequently points to its **balanced budget** projections as proof of its successful approach to public finances.

In fact, the province went a full decade between balanced budgets, triggering a huge run-up in public **debt**.

Even then, the government has needed a lot of help - from both its own questionable accounting methods and a big increase in federal transfers - to finally present a **balanced budget**.

Simply put, the idea that a notionally **balanced budget** means Ontario's finances have been restored to health simply does not withstand scrutiny.

Eisen is director of the Fraser Institute's Ontario Prosperity Initiative.

- **Length:** 542 words
- **Tone:** Neutral
- **Reach:** 171076

Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted

- **Toronto Sun**
- **Sun Dec 17 2017**

- **Page:** A8
- **Section:** News
- **Byline:** Lorriegoldstein
- **Source:** Toronto Sun

It's unprecedented in Ontario's political history.

With less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.

Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister **Charles Sousa** that the government's books are now balanced and will be for at least the next two years, the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.

While the government predicted a **balanced budget** for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict the actual deficit this year will be in the range of $4 billion to $4.5 billion.

The Liberals' budget speech also predicted balanced budgets for the 2018-19 and 2019-20 fiscal years.

But the FAO last week, supporting earlier findings by Lysyk, projected a $7.1 billion deficit in 2018-19, $7.8 billion in 2019-20, $9 billion in 2020-21 and $9.8 billion in 2021-22.

Counting all government fiscal obligations, the FAO projected that, "Ontario's net **debt** will increase by more than $75 billion over the next four years to approximately $400 billion, on the Auditor General's accounting basis."

(When the Liberals took office in 2003, Ontario's net **debt** was $138.8 billion) The FAO warned "rising **debt** will increase the Province's net **debt**-to-GDP ratio (a key indicator of financial health) to over 41% by 2021-22, well above the government's interim target of 35% by 2023-24."

Wynne's goal of reducing the net **debt**-to-GDP ratio to prerecession levels of 27% by 2029-30 appears even more unlikely.

Lysyk and the FAO warn there are serious financial implications to the fact the province now has, in effect, two sets of books, one by the Wynne government and the other by independent financial officers of the Legislature whose job is to report on the province's fiscal situation.

In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of non-standard accounting" will "seriously distort the true state of the province's finances…The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances."

In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers'Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions.

She also contends the financial borrowing required to finance Wynne's reduction of electricity rates by 25% is improperly designed to keep the costs from impacting Ontario's annual deficits and **debt**, and will require the public to pay $4 billion more than necessary in interest payments over three decades.

As a result, Lysyk has refused to give the Wynne government's Consolidated Financial Statements a clean bill of health, issuing a "qualified opinion" regarding their accuracy last year, the first time an Ontario auditor general has done so in more than two decades.

The Wynne government disagrees with Lysyk's conclusions, portraying it as an accounting dispute.

In November 2016 it hired what it described as an expert, fourperson pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers'pension plan.

The government also issued a 1057-word rebuttal of Lysyk's findings on its Fair Hydro Plan, stating, "the **government of Ontario** does not agree with the assertions and conclusions expressed in the report by the Office of the Auditor General", adding it had

consulted “legal, accounting, financial and energy sector third-party experts” to ensure it was in compliance with “Public Sector Accounting Standards.“lgoldstein@postmedia.com @sunlorrie

- **Length:** 677 words
- **Tone:** Negative
- **Reach:** 222184
- **Illustration:** Stan Behal, Toronto Sun Files / KATHLEEN WYNNE; / SOUSAFinance minister;

EDITORIAL: Liberals hiding deficit, second watchdog says

- **torontosun.com**
- **Wed Dec 13 2017**
- **Section:** Editorials
- **Byline:** Postmedia News
- Permalink

The financial credibility of Premier Kathleen Wynne’s government has taken another huge hit with a second independent, non-partisan financial watchdog of the Ontario Legislature saying Liberal claims they’ve balanced the budget are inaccurate.

The legislature’s Financial Accountability Office Monday supported an earlier finding by auditor general Bonnie Lysyk that the Liberals are using accounting tricks to hide their deficits from the public.

Contrary to claims by Wynne and Finance Minister **Charles Sousa** in his April 28 budget speech projecting balanced Ontario budgets for 2017, 2018 and 2019, the FAO reported the Liberals are running a deficit this year and predicted they will continue to do so under their current fiscal policies.

The FAO projects the provincial deficit at $4 billion this year, $7.1 billion in 2018, $7.8 billion in 2019, $9 billion in 2020 and $9.8 billion in 2021.

It says these projections are based on weaker revenue growth and the Wynne government’s rejection of “the Auditor General of Ontario’s recommended accounting treatment for both the government’s Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.”

Defying the auditor general, the Wynne government hired what it described as an expert panel, which endorsed its pension accounting.

It also denied Lysyk’s finding its financing of the Fair Hydro Plan to reduce electricity rates by 25% is an accounting trick.

Lysyk said this will cost Ontarians $39.4 billion, including $4 billion extra in interest payments, because the Liberals are transferring the **debt** to Ontario Power Generation

to keep it off the province's books.

FAO chief economist David West said Monday in releasing the FAO's report which backed Lysyk that: "The government is out borrowing this money. This current year they're going to borrow $23 billion in the markets. That's going to rise to $45 billion in the coming years."

The FAO said the Fair Hydro Plan will add $3.2 billion to the deficit by 2021-22.

It also said the Wynne government's rejection of Lysyk's recommended accounting measures means, "it is becoming more difficult for legislators and the public to assess the government's fiscal projections" which "has reduced the transparency and reliability of Ontario's fiscal plan."

In other words, the Liberals' budgeting can't be trusted.

- **Length:** 346 words
- **Tone:** Negative
- **Reach:** 326700

Liberals Under Fire For 'Cooking' Ontario's Books; 'Fair Hydro Plan' undermines accountability standards

- **Toronto Sun**
- **Sun Oct 22 2017**

- **Page:** A5
- **Section:** News
- **Byline:** Antonella Artuso
- **Source:** Toronto Sun

Ontario's Auditor General Bonnie Lysyk revealed this week that Kathleen Wynne's government hid the cost of its "Fair Hydro Plan" from taxpayers.

The way they did it has raised concerns other governments across the country could follow suit and bury deficits.

Although ratepayers will get a temporary, 25% break over four years on their hydro bills, the plan will cost "up to $4 billion more than necessary" in interest, Lysyk said.

The Liberals also "improperly" moved $26 billion in hydro **debt** off their books, borrowing the money through Ontario Power Generation, and as a consequence hydro ratepayers will face increases for 30 years.

Lysyk argued that was like claiming your credit card **debt** is an asset.

Tory leader Patrick Brown was more blunt, accusing the government of "cooking the

books" to "look good in an election year" "Ontario's Auditor General uncovered an appalling attempt to hide the true $4 billion cost of Kathleen Wynne's hydro rebate scheme, a price which will be paid by ratepayers, Brown said in a statement.

"She concluded senior government officials knowingly ignored the government's own policy for preparing financial statements to create an unnecessary, complex, financing structure designed to keep the true financial impact of its rate reduction scheme off the province's books.

"More damningly, the Auditor General said the Canadian Public Sector Accountability Standards are the standard for all federal and provincial governments of Canada and that the Liberal Government "has brushed aside these standards," he said. "The unavoidable and very strong suggestion is that something highly improper has transpired."

Meanwhile, Ontario's budget slight-of-hand is raising questions across the country.

"Listen, if Ontario can legislate an asset in this case, and everybody thinks that's okay, then you can bet your booties Quebec will be right on the train following them and so will British Columbia," said Tim Besuchamp, the former director of the Public Sector Accounting Board (PSAB) of Canada. "Anybody who's got a deficit - they'll just make it go away by creating an asset."

If Ontario's method of accounting for expenses spreads, taxpayers might never know if their government is truly in the red or black or even how big a **debt** has been run up, said Beauchamp, who's spent 27 years helping develop clear and open accounting standards so citizens can see what their governments are doing.

"And so the bottom line, everything balanced to zero," he said. "And that's just not the way it is."

For their part, Ontario Energy Minister Glenn Thibeault said the government wanted to make sure the borrowing costs for the Fair Hydro Plan were borne by hydro customers, not taxpayers.

Rate-regulated accounting is commonly used in the energy sector, he said, and cast doubt on the auditor's projection of $4 billion in extra borrowing costs.

Colin Nekolaichuk, a spokesperson for Thibeault, said in an email that "It was essential that we get the structure right (of the Fair Hydro Plan) while delivering the meaningful relief Ontario families needed," Beauchamp acted as a consultant for Lysyk but said she only asked him what he thought of the accounting plan, not to confirm her opinion.

Lysyk also canvassed Auditors General across Canada, and everyone agreed that Ontario was going down the wrong path, he said.

"If they get that through to the province's financial statements, then every province, every municipality in Canada, will take advantage of it," Beauchamp said. "It will destroy what the Public Sector Accounting Board has worked for ever since it started."

Public accounting standards, in the U.S. as well as Canada, mandate that governments not treat taxes yet to be levied as an asset, he said.

He dismissed the position of the **Ontario government**, that this is at its heart an accounting dispute.

"(This) is going to bleed through the whole public sector in Canada," Beauchamp said. "It sets a precedent…It's not two accountants sitting in a boxing ring having it out with each other." aartuso@postmedia.com

- **Length:** 650 words
- **Tone:** Negative
- **Reach:** 222184
- **Illustration:** Craig Robertson, Toronto Sun / Premier Kathleen Wynne defends her government in the Legislature regarding a special report from Ontario Auditor General Bonnie Lysyk, inset.; / (See hardcopy for photo);

Provincial Debt: The Next Generation; Ontario set to hand billions in unpaid bills to young people

- **Toronto Sun**
- **Fri Oct 20 2017**

- **Page:** A6
- **Section:** News
- **Byline:** Antonella Artuso
- **Source:** Toronto Sun

Ontario is facing three decades of soaring **debt** unless the provincial government permanently raises revenues or cuts spending by at least $6.5 billion, the Financial Accountability Office of Ontario (FAO) says.

Otherwise, much like the recent decision to push off some hydro costs on future Ontario electricity customers, it will have to go on the tab of younger generations.

FAO chief economist David West said that as the baby boomers retire and age, it will put enormous pressure on the provincial budget.

Without a significant and speedy response from government, the **debt**-to-GDP ratio would rise to a staggering 63% by 2050, gobbling up public funds for **debt** replayment charges instead of health and education services, he said.

"The longer the government delays fiscal policy changes, the more expensive it will be

for future Ontarians," West said.

The FAO's Long-Term Budget Outlook looked at the provincial economy and the province's fiscal position over the next 30 years.

The report released Thursday opens with the Yogi Berra quote, "The future ain't what it used to be."

According to the FAO projections, unless Ontario makes significant changes to its budget, future governments will be in a poor position to respond to any financial crises such as a recession.

"Importantly, if the needed fiscal adjustments are postponed, the burden of stabilizing Ontario's public finances would be increasingly shifted from the baby boom generation to younger Ontarians," the report says.

The **Ontario government**'s vow to lower provincial debt-to-GDP from its current 40% to 27% by 2029-30 would require higher taxes or lower spending starting this year, the report says.

Finance Minister **Charles Sousa** said the report also notes that the growth in the province's economy is projected to remain strong.

Seniors are living longer so the government is taking steps to encourage savings, one of the reasons why Ontario led the national discussion on enhancing pensions in retirement, he said.

"And as a government, we need to be fiscally responsible, we need to manage effectively those social programs, the extension of universal health care," Sousa said.

PC MPP Vic Fedeli said the FAO painted "a very bleak and a very stark picture" of the province's budget future.

"It won't be left to just the baby boomers to pay the **debt**," Fedeli said. "It's now going to roll over into Ontario's youth."

Ontario already owes more than $307 billion. aartuso@postmedia.com

- **Length:** 389 words
- **Tone:** Neutral
- **Reach:** 171076
- **Illustration:** Dave Abel, Toronto Sun / Onatrio's FInancial Accountability Office says the province faces decades of soaring **debt** unless provincial revenues are boosted or the government slashes spending by at least $6.5 billion. Finance Minister **Charles Sousa**, right, remains confident in the health of the provincial economy.; / (See hardcopy for photo);

Millennials will have to deal with Ontario's debt unless action taken: watchdog

- **National Post**
- **Thu Oct 19 2017**
- **Section:** PMN Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - Millennials will have to foot the bill for Ontario's rising **debt** over the next three decades if the government doesn't hike taxes or cut spending by $6.5 billion annually to address major demographic changes, the province's fiscal watchdog warned Thursday.

As the baby boom generation ages, the province's economy will change, experiencing slow revenue growth and requiring increased spending on social programs like health care, Ontario's Financial Accountability Office explained.

Consequently, government **debt** - which currently sits at $312 billion - will be driven up unless taxes are increased or spending is cut beginning next year, the office warned in its long-term budget outlook.

"If these difficult fiscal changes are postponed the burden of stabilizing Ontario's public finances would be increasingly, and arguably unfairly, shifted from the baby boom generation to younger Ontarians," said David West, the FAO's chief economist.

The FAO report, which took a year to research, said balancing the province's budget annually won't be enough to offset the financial impacts of the aging demographic. The government must generate surpluses and use that cash to pay down **debt**, it said.

West acknowledged, however, that a $6.5 billion tax increase or spending cut would have large budget implications.

"(It's) roughly equivalent to eliminating funding for 40 per cent of the province's hospitals, raising the HST rate by two percentage points, or a 25 per cent increase in federal transfers," he said.

The report recommends the **Ontario government** stick to a promise it made to drop the provinces' **debt**-to-gross domestic product ratio from its current level at 40 per cent to 27 per cent by 2030. West said the measure, which gauges the province's ability to pay back and manage **debt** interest payments, would actually increase to 63 per cent by 2050 if significant fiscal changes aren't made.

"Since the demographic pressures on the budget will not intensify until the mid-2020s it will be tempting to postpone or even ignore the difficult fiscal policy changes that are going to be required to stabilize or reduce Ontario's **debt** burden," he said, adding that

would result in higher costs to reduce the **debt**.

Ontario Finance Minister **Charles Sousa** said the province takes the FAO's findings seriously, but he would not commit to either hiking taxes or slashing spending. The province will find ways to foster further **debt** management, he said.

"In all of Ontario's history, for that matter even Canadian history, very little has ever occurred in terms of reduction in actual **debt**," he said. "Ontario's **debt** is managed by its ability to support growth in our economy. I am very sensitive to the degree of **debt**."

Ontario Progressive Conservative finance critic Vic Fedeli called the FAO report a "bleak and stark" budget picture.

"The **debt** is going to crowd out the services that families need like health and education," he said. "All the things people have come to rely on they will struggle to pay for and the baby boomers **debt** will now roll over to the younger Ontarians."

Peter Tabuns, an NDP legislator said the government has been fiscally irresponsible and has tried to deal with budget shortfalls by selling off public assets.

"Their whole approach is one that's making the fiscal picture in Ontario much tougher,"he said.

- **Length:** 532 words
- **Tone:** Negative
- **Reach:** 607500

Government borrowing to lower hydro bills gets broadside from AG

- **National Post**
- **Wed Oct 18 2017**

- **Page:** A5
- **Section:** Canada
- **Byline:** David Reevely
- **Source:** National Post

Hiding billions of dollars the **Ontario government** is borrowing to lower electricity bills for a few years will cost hydro users an extra $4 billion, the province's auditor general reported Tuesday.

Maybe worse, Bonnie Lysyk said in a special report on the Liberals' "Fair Hydro Plan," the tricks the government is using throw doubt on all the province's books. The government, citizens, auditors and giant institutions that lend the province money are pretty much operating in a post-truth universe, where what the Liberals say is going on

with Ontario's finances has begun to drift from any previously understood shared reality.

What the Liberals have done "would be unacceptable in the private sector, and we maintain that this is also unacceptable in the public sector," Lysyk reported. "If the consolidated financial statements are so unreliable that an adverse opinion is warranted, terms like '**balanced budget**, 'deficit, 'asset' and 'net **debt**' will be meaningless."

Here's what's happening. Earlier this year, Premier Kathleen Wynne gave up defending the increases in the price of electricity since the Liberals took over in 2003. She and her cabinet put together a plan to cut bills that amounted to paying today's costs with borrowed money and repaying it with interest later. It has already cut residential bills by an average of 25 per cent, beginning last summer. And it will increase them by a combined total of $21 billion over time, when all that interest has to be paid, according to a report by Ontario's financial accountability officer (whose job is specifically to run budget numbers independently of the government, and whose findings Lysyk used for her dollar figures).

The argument the government makes is that the investment in cleaner and more reliable power will benefit us for a long time, so we should pay for it over more years - that's "fairer." This is debatable but not obviously ludicrous. That additional "fairness" is costing $17 billion in interest, spread out over years.

The Liberals really, really, really wanted to keep that **debt** off their books, so they could also go into the next election saying the budget is balanced. Borrowing billions in an election year would get in the way. So they did some financial engineering to put the **debt** on Ontario Power Generation instead. The Crown corporation is publicly owned but it doesn't get interest rates as good as the provincial government itself, so that's where the $4-billion premium comes in.

Her team looked at emails from the upper reaches of several government ministries, though the Ministry of Energy kept some back, Lysyk's report says. "Hopefully they'll come to the conclusion that it can be financed by the province … rather than externally, as that would be a lot simpler and cheaper," she quotes one unnamed senior official, in an email. Nope. OPG is borrowing the money on our behalf and then there's a complicated interplay of regulatory and financial manoeuvres to book money we're expecting hydro users to pay for electricity in the 2020s, '30s and '40s as assets that balance off the **debt**. The essence is to say Ontarians are borrowing these billions as hydro ratepayers, not as voting citizens.

Same people, different hats, different rules.

All of which is bull, Lysyk says. The point of accounting is to tell you how much money you have, how much you owe and how much you are owed. That's what the standards for Canadian public-sector accounting are supposed to achieve.

“These standards are there to ensure that the financial reporting of government policy decisions reflects common sense: borrowings are **debt**, unearned revenue is not an asset today and when your expenses exceed your revenues, you incur a deficit,” Lysyk said Tuesday. Nobody has used electricity in 2025 yet, let alone 2040. You can’t count guesstimates of use and prices 20 years down the line as an asset today.

The usefulness of doing so was visible when Energy Minister Glenn Thibeault and Treasury Board president Liz Sandals responded to Lysyk’s report. They think the $4-billion estimate for the extra cost of hiding the **debt** is too high. They argue the gap between the government’s interest rate and Ontario Power Generation’s might not be as big as the financial accountability office thinks.

They could be right - we won’t know for sure till the 2040s. So it’s a bit weird to account for it as if it’s fait accompli.

The government even went shopping for different accounting standards it might use, Lysyk’s report says, trying out rules used for private businesses in the U.S. because they seemed friendlier. Consulting firm Deloitte told the government this was OK, a position it repeated at the government’s request on Tuesday after Lysyk released her report.

Maybe reasonable accountants can disagree about this. But the ground they’re fighting over is whether the trick the Liberals used to keep the **debt** off the government books at a cost of billions of dollars is an acceptable trick, not whether they’re keeping the **debt**off the government books or whether it’s going to cost billions of dollars.

Which is just what you want from your government, right? Ottawa Citizen

- **Length:** 847 words
- **Tone:** Neutral
- **Reach:** 159480
- **Illustration:** Brian Thompson, Postmedia News / Hiding billions the **Ontario government** is borrowing to lower electricity bills for a few years will cost hydro users an extra $4 billion, the province's auditor general says.;

Liberals costing us extra $4 billion in interest costs

- **torontosun.com**
- **Tue Oct 17 2017**
- **Section:** Regional
- **Byline:** Antonella Artuso Toronto Sun
- Permalink

The Kathleen Wynne’s Liberal government is flouting accounting rules and taking on an unnecessary $4 billion in extra borrowing costs — to be applied to future electricity bills — to keep the true cost of its Fair Hydro Plan buried, Ontario Auditor General Bonnie Lysyk says.

A battle between accountants is not usually the stuff of Hollywood blockbusters, but Queen's Park was enthralled Tuesday as Lysyk and her experts faced off against the government and its counter experts.

While the Liberals tried to minimize the conflict as a mere accounting dispute, Lysyk said what was at stake was far more important as the financing manoeuvre allows the government to write its own budget bottom line.

"This is wrong," she said.

Under public pressure to respond to soaring hydro costs across Ontario, Wynne earlier this year released a plan that reduced bills by 25% on average, and promised to keep increases to the rate of inflation for four years — in part by eliminating the provincial portion of the HST from bills.

The government also announced that it would open contracts it had signed with private power suppliers, such as Bruce Nuclear and wind and solar providers, and refinance those usually 20-year deals over a longer period to lower bills in the short-term.

However, instead of borrowing that money itself — the provincial government gets a really good rate — the Wynne team decided to ask Ontario Power Generation to borrow it at higher rates.

The difference adds up to an extra $4 billion in borrowing interest costs — for a total cost of $39.1 billion for the hydro plan — but means that extra red ink doesn't show up on the province's books, Lysyk said.

Internal government correspondence shows that was the goal of the financing plan, she said.

Energy Minister Glenn Thibeault said the government made a policy decision that the cost of refinancing electricity assets would be borne by the hydro ratepayer, not taxpayers, as has been the historic practice.

The government's accounting method has been reviewed and approved by senior staff from several ministries, the cabinet office, Ontario Power Generation, the Independent Electricity Operator, and third-party consultants, including KPMG and Deloitte, he said.

Treasury Board President Liz Sandals noted that they also took hydro relief programs off of the electricity bill, and placed them on the government books, because that was a more appropriate way to record the expense.

"There was no fast ones being pulled at all," Thibeault insisted.

The government is now estimating the cost of the Ontario Fair Hydro Plan (OFHP) at

less than $20 billion.

Lysyk said she consulted with auditor generals from across Canada, and attending in support at her media conference was Tim Beauchamp, the recently retired director of the Canadian Public Sector Accounting Standards Board.

The provincial government's method of accounting, a first in Canada for any government, is not yet carved in stone and the $4 billion can be saved, Lysyk said.

"There's still time to fix it," she said.

What the opposition parties had to say

The Ontario Liberal government "cooks the books" — spending up to $4 billion more than necessary to hide the true cost of its latest hydro scheme, Progressive Conservative Leader Patrick Brown says.

By structuring the cost of the Ontario Fair Hydro Plan (OFHP) in such a way that it was off the government books — adding to borrowing costs but not showing up as more red ink in the provincial budget — the Liberals were essentially forcing taxpayers to fund their re-election campaign, he said.

"This is cynical politics at its worst, making up their own rules, charging Ontario families more to serve the partisan interests of the Liberal Party," Brown said, shortly after a damning auditor's report was tabled in the Ontario legislature Tuesday.

The Ontario Liberals, who ran a budget deficit for several years after the 2008-09 recession, announced in their spring budget that the books will be balanced for the upcoming fiscal year.

Provincial voters go to the ballot box this June.

NDP MPP Peter Tabuns, who also sided with the auditor general's view that this type of accounting was wrong, said the government was attempting to book as an "asset" its ability to charge future hydro ratepayers more than their power will be worth.

"This was one of the most shameless displays I've ever seen from Liberal cabinet ministers," Tabuns said, after Energy Minister Glenn Thibeault and Treasury Board President Liz Sandals defended their financing decisions. "They're trying to make this whole thing to be a fight over accounting. The guts of this is that the government is spending $4 billion more in interest that we're going have to pay for in our hydro bills, so they can move these numbers off their books so they can make it look like they're not running a deficit."

What the Auditor General of Ontario Bonnie Lysyk says:

Kathleen Wynne government's complex financing for Ontario Fair Hydro Plan (OFHP) needlessly dumps up to $4 billion more in borrowing interest costs on Ontarians.

Only reason to spend extra $4 billion is to ensure that the expense doesn't impact government's surplus and deficit figures.

No government in Canada has ever used this method of accounting before, like booking credit card **debt** as an asset. The government books should reflect the costs of its policy decision — about $2.5 billion a year until 2027.

Ministry of Energy gave law firm $500,000 retainer to go through its OFHP e-mails, requested by the auditor, and still haven't turned over everything even though other energy agencies have. Government spent at least $2 million on outside advisors to design this financing structure.

Total bill for OFHP — $39.4 billion over 30 years.

What the **Ontario government** and energy agencies say:

Total bill for OFHP will be under $20 billion, down from an estimate of $27 billion in March.

Auditor's e-mail request pulled over 100,000 e-mails, so lawyers needed to go through them to ensure they were on topic. About 7,000 have been turned over already.

Financing decision was based on government policy to make sure hydro ratepayers, and not taxpayers, covered the cost.

Similar accounting methods are used by many energy agencies, here and in the United States.

Government enlisted advice of many experts, including KPMG, on the structure of the accounting.

- **Length:** 1034 words
- **Tone:** Neutral
- **Reach:** 326700

Government and auditor general at odds over size of Ontario's deficit

- **thestar.com**
- **Thu Sep 7 2017**
- **Section:** News | Toronto Star
- **Byline:** Robert Benzie

It's not quite Mayweather-McGregor, but the stakes are high in the accounting slugfest between the provincial government and the auditor general.

Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals - and the bureaucrats in their ministries - say Ontario's deficit last year was $991 million, while auditor general Bonnie Lysyk maintained it was $2.44 billion.

At the same time, the province said the net **debt** was $301.6 billion, while Lysyk calculated it was $314.1 billion.

The actuarial dispute - a reprise of last year's tussle (www.thestar.com) between Queen's Park and the fiscal watchdog - stems from a difference of opinion over whether the government should include on its bottom line its share of assets from the teachers' and public servants' pension funds that it co-sponsors.

Sandals on Thursday shrugged off Lysyk's accounting (www.thestar.com) interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

"The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

"Quite frankly, I don't think the public is terribly hung up on accounting disagreements."

Sousa noted the books are balanced this year, but he refused to bite when asked what plans the Liberals have for an expected budget surplus next spring before the June 7 election.

A government-appointed panel of accounting experts concluded earlier this year that Lysyk erred (www.thestar.com) when she claimed the province couldn't count as assets the taxpayer-funded surpluses in the co-sponsored Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan.

Still, the auditor general (www.auditor.on.ca) , who has sparred with the government for years on myriad issues, stuck to her guns.

"The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so," she said.

Lysyk warned that her next target will be an audit of the government's 25-per-cent electricity rate cut, which "may lead to a larger understated deficit and net **debt** next year."

A special report on the scheme will be released this fall.

- **Length:** 393 words
- **Tone:** Negative
- **Reach:** 999000
- **Illustration:** Finance Minister **Charles Sousa** said Thursday the books are balanced this year, but he refused to say what plans the Liberals have for an expected budget surplus next spring before the June 7 election.

Is Ontario deficit really $991M?

- **Toronto Sun**
- **Fri Sep 8 2017**

- **Page:** A6
- **Section:** News
- **Byline:** Shawn Jeffords
- **Source:** The Canadian Press

The **Ontario government** posted a $991-million deficit last year - and said Thursday it had beat its 2016 projections by $3.3 billion.

But the province's auditor general says the Liberal government is "significantly understating" its deficit, which she pegs at $1.4 billion.

Ontario Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals made the announcement Thursday as they released the province's 2016-2017 public accounts.

The government attributes the results to billions of increased revenue, a cut in program spending, and smaller interest costs to service the province's **debt**.

In 2016, Ontario's auditor general Bonnie Lysyk questioned the province's decision to include a pair of public pensions - the Ontario Public Service Employee's Union Pension Plan and the Ontario Teacher's Pension Plan - as assets on its balance sheet. As a result, she has offered a "qualified" opinion on the financial statements two years in a row.

Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble.

"The public wants to know, are you managing your deficit?" she said. "Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards."

- **Length:** 213 words
- **Tone:** Neutral
- **Reach:** 171076
- **Illustration:** / SOUSAAnnouncement; / SANDALS"Qualified";

Ontario says 2016 deficit was $991 million, beating target by $3.3 billion

- **National Post**
- **Thu Sep 7 2017**
- **Section:** PMN Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - The **Ontario government** posted a $991-million deficit last year - beating its 2016 projections by $3.3 billion.

Ontario Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals made the announcement today as they released the province's 2016-2017 public accounts.

The government attributes the results to billions of increased revenue, a cut in program spending, and smaller interest costs to service the province's **debt**.

Ontario's auditor general has questioned the province's decision to include a pair of public pensions as assets.

But the government maintains it is following established accounting practices by doing so.

Sousa says the province will balance its budget in 2018-2019 ahead of next spring's provincial election.

- **Length:** 110 words
- **Tone:** Neutral
- **Reach:** 607500

Hansard Scan

- **8** or **19%** of the questions directed to the Minister of Finance in the fall 2017 session of the legislature were about fiscal accountability.
    - **7** of these questions cited a report or commentary by the FAO.
    - **5** of these questions cited a report by the Auditor General.
    - The Minister of Finance was asked **3** questions on fiscal accountability following the release of the Auditor General's report on the Fair Hydro Plan.
- The Minister received **1** question on the privatization of public assets and the partial sale of Hydro One, following news about the Canadian Union of Public Employees' (CUPE) lawsuit.
- **5** or **12%** of the questions directed to the Minister of Finance in the fall 2017 session of the legislature were about the government's fiscal policies.

Ontario Hansard - 11-September2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: Good morning, Speaker. My question is for the finance minister. For years, this government has been presenting our Legislature with made-up finance numbers. Whether it was from the independent experts or the government's own confidential cabinet documents received in the gas plant scandal, it's been proven that the numbers they present to the public are simply made up to fit their story. Last week, the Financial Accountability Officer—

The Speaker (Hon. Dave Levac): The members will lose their props shortly and actually get warned if they do it again.

Interjection.

The Speaker (Hon. Dave Levac): You want to make an excuse? You know what I'm talking about, and you know you're not supposed to do that.

Carry on.

Mr. Victor Fedeli: Last week, the Financial Accountability Officer provided irrefutable evidence they were using "unlikely assumptions" for debt reduction claims. He projects a "steady deterioration in the budget deficit over the next five years." All of their made-up numbers don't come anywhere near historical numbers. It's only wishful thinking.

I would ask the minister, if he can't present the province's finances with integrity—

The Speaker (Hon. Dave Levac): Thank you.

Minister of Finance?

Hon. Charles Sousa: Let me begin by thanking the Financial Accountability Officer for the work he does, and their department, recognizing their sensitivity analyses that they provide.

Every year, similar accusations are made by the member opposite, and every year, we exceed our targets. Every year, we exceed our targets, and public accounts reaffirms that. We beat our deficit by $3.3 billion this year. We are the leading jurisdiction in North America when it comes to economic growth. Our unemployment rate is at 5.7%. We're on track to balance the budget—as we said we would—this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the finance minister: As if the blistering commentary from the FAO wasn't enough, the Auditor General has now weighed in. She said that this government's annual deficit is understated, net debt is understated and accumulated debt is understated. We're not talking nickels and dimes here. The auditor says that our deficit is $1.5 billion more and our net debt is $12.5 billion more than reported. For the second year in a row, the auditor has said, "Based on the ... evidence ... the statements are significantly misstated."

Both of the legislative officers have told us that this government's numbers can't be trusted. I ask the minister: Why does it always take the Financial Accountability Officer, the Auditor General or the OPP to get to the truth in Ontario?

Hon. Charles Sousa: Investors around the world are investing in Ontario for a reason. They recognize that Ontario's economy is growing. They're recognizing that our fiscally responsible approach to growing the economy, investing in things that matter, is working. And our plan is working. We're borrowing $30 billion less than we had anticipated. Our net debt to GDP is lower now than was anticipated and is tracking to go further down.

As we produce and as we move forward, we're taking every necessary step to grow the economy. And as we grow the economy, it enables us to source more opportunity to invest in things that matter to Ontarians, things that that member and his party opposite have voted against. They voted against providing more free tuition for our students. They voted against the very nature of trying to provide extended pharmacare for every young person under 25. These are the reasons we're able to do that: because we've balanced the budget and we're taking the steps necessary to invest in infrastructure. That makes us competitive and enables us to balance the books all the while.

Ontario Hansard - 21-September2017
PRIVATIZATION OF PUBLIC ASSETS

Mr. Patrick Brown: My question is for the Minister of Finance. CUPE announced this morning that they are appealing the ruling in their lawsuit against the government. That, of course, would be the lawsuit that alleges that the sale of Hydro One was motivated by improper and ulterior purposes. CUPE alleges that it does not benefit the people of Ontario. In a direct quote—this is about "lining the pockets of political cronies on Bay Street and funnelling money" into party coffers.

Mr. Speaker, 80% of the province is against this fire sale of Hydro One. Was the government, according to CUPE, motivated by improper and ulterior purposes?

Hon. Charles Sousa: The answer is no, Mr. Speaker.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Patrick Brown: Again to the minister: One of the government's defences was that they were going to be using the fire sale of Hydro One for infrastructure. What's really interesting is that the member for Dufferin–Caledon exposed yesterday that 20% of the infrastructure budget was not used. That added up to $3.3 billion. Coincidentally, that $3.3 billion is pretty close to what the Hydro One sale was supposed to net for infrastructure—an interesting coincidence.

My question is pretty simple. Mr. Speaker, to the Minister of Finance: Why sell Hydro One for apparent infrastructure money if the Liberals weren't going to use it?

Hon. Charles Sousa: This province, under this government, over the last 10 years, has contributed more to our infrastructure spend than other governments combined over that history. We have put in our budget $190 billion over the next 13 years. That member opposite voted against those measures.

The law case that he makes reference to has been dismissed by the courts without merit. He knows that, and he's trying to infer something he knows is not true. What we're doing is stimulating growth, improving our economy and balancing the books, and we are making the investments necessary for our future competitiveness.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Patrick Brown: Mr. Speaker, again to the Minister of Finance—and I did not get a response on why the Hydro One fire sale funds were not used on infrastructure.

Fred Hahn from CUPE had a pretty good quote that I'll quote right here. He said, "The case is about more than the sale of Hydro One. It's about the government's responsibility to act in the best interest of its citizens. When a government abandons that responsibility, and does so to the benefit of their political party, they must be held accountable."

CUPE is right. There must be accountability. Will the minister admit that the sale of Hydro One was not about the best interests of the province of Ontario; it was about the Liberals trying to find funds to make up for their promises that they can't honour? This was not about the best interests of Ontario; it was about the best interests of the Ontario Liberal Party.

Hon. Charles Sousa: We are repurposing some of our assets, as all governments do over the course of their mandates, to try to ensure that we invest most appropriately in those measures for the benefit of our economy. That is in the best interests of Ontarians. Ontarians will remain the largest shareholder of a much more productive organization, reinvesting those proceeds into infrastructure—

Interjection.

The Speaker (Hon. Dave Levac): The member from Bruce–Grey–Owen Sound, come to order.

Finish, please.

Hon. Charles Sousa: We established the Trillium Trust to ensure that all those proceeds, dollar for dollar, get earmarked specifically for those investments. The member opposite knows that, and he voted against those measures.

We are going to continue to work in the best interests of Ontarians, and that is what's important. We are looking long-term, and we're not making these election-cycle decisions that this member opposite, who has no plan, who has offered nothing in return—

The Speaker (Hon. Dave Levac): Thank you.

New question.

Ontario Hansard - 03-October2017
GOVERNMENT FISCAL POLICIES (GOVERNMENT RECORD)

Mr. Arthur Potts: My question is to the Minister of Finance. In 2010, this government promised to eliminate the deficit and balance the budget by 2017-18. This was not very long

after the 2008-09 recession, which had very extremely negative impacts on countries around the world, and Ontario, of course, was not immune.

However, rather than slash the programs and services upon which Ontario families rely in order to eliminate the deficit, I am very proud of the fact that our government chose to build Ontario up. The investments that we have made in transit, schools, hospitals and education have led people to choose Ontario as their home now more than ever. And I, for one, am happy to see that there are more supports for municipalities. Ontario cities and towns are now receiving four times the level of support they got in 2003, more than $4 billion in support.

Can the minister remind the House how on this side of the House we've been able to invest in the people of Ontario for 14 years without the slashing and cutting that they would do on that side of the House?

Hon. Charles Sousa: I thank the member for the question. For the past 14 years, our government has taken a balanced approach to keeping Ontario at the forefront of a global economy. We managed our expenses and transformed how we deliver public services, making them more efficient and more effective.

This is the type of financial responsibility that the opposition doesn't understand. By investing in progressive policies, we're stimulating growth in our economy. We're making historic infrastructure investments: $20 billion into hospitals, $16 billion into schools, free tuition for our students and free pharmacare for our young people. Meanwhile, our program-expense-to-GDP is lean and lower than pre-recession levels.

Let me remind you: Under the previous PC government, Ontario taxpayers were paying 15 cents for every dollar earned just to service the debt. Now in Ontario we're paying only 8.4 cents, and next year it will be even lower. We've eliminated the deficit, we've balanced the budget and that means more money to invest in health care, education and other public services that—

The Speaker (Hon. Dave Levac): Thank you. Supplementary.

Mr. Arthur Potts: Back to the Minister of Finance: If you listen, Speaker, to what the opposition are saying, they want people to believe that we've made no advancements over the last 14 years. They would like people to believe we have had no improvements in businesses and no investments in industries like the tech sector and the STEM sector. They would want you to believe—

Mr. Victor Fedeli: They advanced, but they all advanced backwards. They advanced backwards.

The Speaker (Hon. Dave Levac): Too late. The member from Nipissing is warned.

Interjections.

The Speaker (Hon. Dave Levac): In case the member needs a reminder, we're into warnings.

Mr. Arthur Potts: They would want us to believe that Ontarians have not been working hard to grow this economy into one of the strongest in Canada and all of North America. It's hard to rectify that with what the Minister of Finance has just spoken about: how, under Liberal leadership, we have dug Ontario out of the recession, and how, because of this, we are now able to make very progressive investments in new policy that will attract foreign investment.

Can the minister tell us about the great progress that this side of the House has made over the last 14 years, to make Ontario the best place to create and grow jobs?

Hon. Charles Sousa: Minister of Economic Development and Growth.

Hon. Brad Duguid: I'm very proud to stand up today to say that we've worked tirelessly with our business community and Ontario workers to build Ontario up and to turn our economy into one of the strongest in Canada and North America.

Yes, we've weathered one of the worst recessions we've seen in recent memory. Since then, we've added 760,000 net new jobs. Since then, and for the last three years, we've been leading the G7 in growth. Since then, we've brought our unemployment rate down to 5.7%, the lowest in 16 years. Since then, we've invested $3 billion in partnerships with businesses, leveraging $27 billion in private sector investment, supporting 170,000 jobs and, just as importantly, we're now poised to lead in the new global economy.

We've transformed our economy; we're heading in the right direction—

The Speaker (Hon. Dave Levac): Thank you. New question.

Ontario Hansard - 05-October2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: My question is for the Minister of Finance. Last month, there were two

legislative reports on the state of Ontario's finances. They were described as blistering and scathing. Those descriptions, Speaker, are well deserved.

Both of the Legislature's—

Interjections.

The Speaker (Hon. Dave Levac): Stop the clock, please. The member from Beaches–East York, come to order.

As I indicated to both sides, I'm not going to tolerate the interjections, and you'll see how quickly I'll deal with them if I have to.

Continue, please.

Mr. Victor Fedeli: Both of the Legislature's independent officers openly challenged the ministry's credibility. The Financial Accountability Officer said that the minister is using "unlikely assumptions" to make his debt claims. In fact, they said that if any of these wild assumptions fall short, the government's targets would not be achieved. They particularly took issue with the government's overly optimistic growth projections.

If the FAO doesn't believe the minister's numbers, why should the people of Ontario?

Hon. Charles Sousa: Economists independent of government across Canada have cited this: Ontario is leading the way in economic growth in our country. The Conference Board of Canada has cited that we've outperformed and had the most transparent levels of reporting than any other government in Canada.

This member opposite continuously degrades and talks down the outstanding achievements of Ontarians and businesses in our province that are creating wealth, creating greater prosperity, and hiring for more jobs. We have the lowest unemployment of any part of this country, and we are overachieving every single year that we put forward our budgets, to the benefit of Ontario.

We've reduced the deficit to under $900 million just last year, and we're going for it: We're balancing the budget this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the minister: The FAO's comments were strong enough, but the Auditor General painted an even more damning picture of the minister's financial reporting. For the second year in a row, the auditor wouldn't sign off on the province's books without a big asterisk.

The auditor went further, stating flat out that the statements are "significantly misstated." She says our deficit last year was $1.4 billion higher than claimed, and our debt is a whopping $12.4 billion higher. She warned us and the markets and investors that we need to be able to rely on government figures being accurate, but "this year they cannot do so." That's her quote. You cannot rely on their numbers.

Again we ask—and I know they're belittling the auditor; I can hear their comments again. But we ask: If the AG and the FAO don't believe the minister's numbers, why should we?

Hon. Charles Sousa: Investors around the world believe our numbers. The people of Ontario and throughout Canada who buy our bonds believe our numbers. We have the highest liquidity of trade in bonds of any government across this continent, in fact.

Our debt-to-GDP has been reduced—and it continues to reduce—below 37%, again overachieving our targets. Our accumulated deficit—which is a representation of the historical activity of Ontario's budgets—today is at around 27%, the same as it was 25 years ago. Our interest on debt as a percentage of revenue today is 8%. When he was in power, when the Progressive Conservatives were in power, Mr. Speaker, it was 15% of our revenues.

We are overachieving, and we continue to do so. We are using the same standards as we've always done, including what the Auditor General has done even as recently as three years ago.

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The Speaker (Hon. Dave Levac): Final supplementary?

Mr. Victor Fedeli: Back to the minister: If the minister is comfortable using, "significant misstatements" and "unlikely assumptions," then it should be no surprise to hear what else he continues to claim.

They continue to say, "We're leading the G7 in economic growth." But Ontario is not number one, Speaker. There are 27 US states ahead of us.

The minister continues to claim that manufacturing exports are up, but StatsCan just last week reported that Ontario manufacturing sales suffered their largest decline in eight years.

Here are some of the recent headings: "July Trade Deteriorates"; "Exports Languish"; "Ontario Residents Hit by Manufacturing Downturn"; "International merchandise exports fell"; "Manufacturing sales slip."

Speaker, given all these examples, plus the Financial Accountability Officer's and the Auditor General's criticism, how can anyone trust anything this government says?

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please. Thank you.

Minister.

Hon. Charles Sousa: Mr. Speaker, facts do matter, and that side of the House—

Interjections.

The Speaker (Hon. Dave Levac): Well, we're there. From now on, we're going into warnings for those interjections. The member from Renfrew–Nipissing–Pembroke, come to order. You brought us to this point. Warnings are on.

Finish.

Hon. Charles Sousa: Mr. Speaker, facts matter. This member opposite is citing sources—

Interjection.

The Speaker (Hon. Dave Levac): The member from Leeds–Grenville is warned.

Carry on.

Hon. Charles Sousa: He's citing references from years past, recognizing that as of today, Ontario is ahead of the curve. Our unemployment rate is the lowest it has been in 16 years, at 5.7%.

That's not to say that we're not continuously looking at stimulating economic growth around all of Ontario, recognizing some regional disparities exist. That member opposite and that party voted against those measures that improve prosperity, stimulate new growth and continuously balance the books.

Ontario Hansard - 19-October2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Minister of Finance. This morning, we learned from the Financial Accountability Office that the government's debt

reduction claims are $6.5 billion off the mark. The FAO said that's equal to eliminating funding for 40% of Ontario's hospitals, to put it in perspective. They painted a bleak and stark long-term budget outlook for Ontario.

Meanwhile, the government continues to insist they're on track even though they use the same data the Financial Accountability Office used. The FAO clearly stated, "without an adjustment to Ontario's fiscal policy," we will see increasing budget deficits and higher levels of debt.

The people of Ontario clearly cannot trust anything this government says. Will the minister come clean about their debt claims and tell us what they plan to do to address these new concerns?

Hon. Charles Sousa: I appreciate the question. I appreciate the work done by the FAO in regard to looking long term, in terms of the demographic and challenges that not only Ontario—he makes reference to the fact that all OECD countries everywhere around the world are going to be facing these challenges.

We, too, came out with a long-term report last year recognizing these very issues. The FAO rightly states that we have to take measures and have to address these long-term challenges. It is exactly what it is that we're doing in our budgets today. We are looking long term in terms of the programs we put in place to support health care, to support education. In fact, universal health care that has been expanded to youth under 25 is part of that. The work that we're doing with pension reform is part of that, both of which that side of the House have actually declined to do.

We need to support these very measures. We need to manage our fiscal house. That's why we're balancing the books this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the minister: The FAO confirmed again this morning that their so-called balance is all with the one-time asset sales and other one-time revenues. But here's why what the Financial Accountability Office said today matters to families: The FAO says not meeting the debt targets means there will be "less fiscal room for spending on government priorities, such as health and education." The FAO also said that Ontario is less able to respond to unforeseen events, such as the next recession.

Interjection.

The Speaker (Hon. Dave Levac): The chief government whip is warned.

Mr. Victor Fedeli: Perhaps worst of all, the FAO says continuing on this course will unfairly shift the fiscal burden from baby boomers to younger Ontarians.

This week, two independent officers of the Legislature have disputed the Liberals' numbers. How can families ever trust anything this government says again?

Hon. Charles Sousa: We came into office recognizing that the recession had hit us hard, recognizing that the Conservative government federally doubled their debt, had almost the highest deficit in Canada's history under their watch, and we on this side of the House also recognize those challenges. It is why we stimulated growth, invested heavily in infrastructure to build our economy and support the people of Ontario.

Today, we're outpacing Canada and the G7 countries. Today, we have the lowest unemployment in 17 years. Today, 730,000 net new jobs have come to the province. Today, we are continuing to invest long term to address the very challenges that the FAO has rightly cited, ones that we accept and we are taking every step to manage going forward.

We are balancing. We're balancing the books this year. We're balancing the books next year and the year after that, and those members have voted against those measures.

Interjections.

The Speaker (Hon. Dave Levac): Just a little reminder: We're in warnings.

New question.

Ontario Hansard - 23-October2017
FISCAL ACCOUNTABILITY

Ms. Andrea Horwath: My question is for the Acting Premier. Thanks to the Auditor General, we now know that the Premier and her Liberal government are forcing Ontario families to pay $4 billion just to hide the damage that her hydro borrowing scheme will do in the long run. We know that she was warned about the cost, we know she was given other options and we know she went ahead anyway.

Can the Acting Premier tell us who made the decision to ignore staff warnings and push ahead with a $4-billion scheme?

Hon. Charles Sousa: Again, the premise of the question is erroneous. The estimation by the Financial Accountability Officer made reference to what he felt were estimated numbers based on estimated borrowings, which we're reminding everyone that that is not actually what has taken place. So the premise of the question is erroneous.

There is a plan before us which reduces hydro rates, electricity rates, for Ontarians across the province by 25%, enabling us to do so in a responsible manner, which the opposition have now declined.

The Speaker (Hon. Dave Levac): Supplementary?

Ms. Andrea Horwath: Speaker, I would trust the estimations of the FAO and the Auditor General much more than I would expect to trust the estimations of the government. If you recall, this government estimated a $40-million cost of the gas plants scandal, and that was $1.1 billion, so I'm not going to take their estimations; definitely not.

In addition to the $4 billion that this Premier spent to hide the real cost of her $40-billion borrowing scheme, they also forked over another $2 million to consultants to help design said scheme. Since they won't tell us about the $4 billion, will the Liberal government at least make these consultants' contracts public so Ontarians know who exactly it is that's advising the Premier and what direction she was given?

Hon. Charles Sousa: President of the Treasury Board.

Hon. Liz Sandals: First of all, I think it's important to understand that the numbers that the leader of the third party is throwing around were estimates of something or other—projections that came from the FAO. They were not documents that were ever presented to cabinet on which to base a decision. They were projections that came after the fact. They were not cabinet decision-making documents.

The decision that cabinet did make was an important policy decision to say that things that actually have to do with electricity production belong on the rate base, from an accounting and from a real perspective—a financial, fiscal plan perspective. Things which have social policy

impacts belong on the tax base. That's exactly what the accounting is based on, that policy decision to put electricity on the rate base.

The Speaker (Hon. Dave Levac): Final supplementary?

Ms. Andrea Horwath: I have not been gobsmacked in this place for a long time, but for a minister to get up and talk about estimations of "something or other" is pretty worrisome. For a governing party to do that is pretty worrisome.

We know that the Liberal government knew how much it was going to cost to hide the disastrous effect of their borrowing scheme from the public. We know that they knew it was going to cost Ontario families $4 billion to do, and clearly they just didn't care that they were going to spend $4 billion to cook up this scheme. We also know that the people of this province paid an additional $2 million for consultants to tell them how to pull it off.

Why is the Liberal government putting themselves and their party ahead of families once again? They're looking after their political interests, the interests of the Liberals and this Premier, instead of the interests of the families in this province, who are struggling just to make ends meet and pay their skyrocketing hydro bills.

Hon. Liz Sandals: Minister of Energy.

Hon. Glenn Thibeault: When it comes to our policy decision, we actually made a decision that helps every single family in this province by reducing their electricity bills by 25%. Then we went even further: We brought forward our social programs, the OESP program and the RRRP program, for those folks who live in rural or northern parts of our province. They're going to see a 40% to 50% reduction on their bill. That's the policy decision that we made as a government. We made sure that we kept electricity generating assets on the electricity side, and those social programs that I talked about, we pulled those off of the rate base to lower the rates even more and we put that on the tax base.

When it comes to putting families first, it's this government that does so. It's this government that brought forward the reduction, and it's this government that continues to bring forward plans and policies that will—

Interjection.

The Speaker (Hon. Dave Levac): The Member from Renfrew–Nipissing–Pembroke, second time.

Wrap up, please—one sentence.

Hon. Glenn Thibeault: Thank you, Mr. Speaker. It is this government, not the opposition, that is making a difference in the lives of families in this province each and every day.

Ontario Hansard - 23-October2017
FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTABILITY)

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Acting Premier. Under the Fiscal Transparency and Accountability Act, the finance minister is required to provide a fall economic statement. Over the last 30 days, we've all heard the warnings made about this government's documents. The Legislature's Financial Accountability Office says the budget will not balance because the numbers are based on "unlikely assumptions." Last month, the Auditor General said this government has "significantly misstated" the numbers for two years running. Last week, the AG said the government "is making up its own accounting rules."

To the Acting Premier: Is there even a remote chance we're going to see any numbers we can believe?

The Speaker (Hon. Dave Levac): Acting Premier and Minister of Finance.

Hon. Charles Sousa: I reject the premise of this question and the notion which the individual is trying to also reflect. The fact is that Ontario, by all accounts, is leading Canada. We have the lowest unemployment in 17 years, almost 800,000 net new jobs from the depths of the recession. We've been very open and transparent and we've beaten our targets consistently, year over year, as attested by public accounts, which the Auditor General does confirm.

The member opposite may talk about expectations and exaggerations. We deal with the facts here, and we are exceeding and delivering for the people of Ontario.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the Acting Premier. Well, that's certainly not what the Auditor General told us last week.

The transparency act also requires the finance minister to release August and February reports every year, but, sadly, this minister has missed issuing almost all of them since his appointment. Considering the lack of trust in this government's numbers, we can see why they choose to snub their nose at our laws.

The minister is also required to publish a pre-election finance report, to be reviewed by the Auditor General. The government must provide detailed accounts, the very numbers that the Financial Accountability Officer says would "not be achieved," the very numbers the Auditor General says we "cannot rely on."

Will the government produce a pre-election report? Will there be any numbers in it we can actually believe?

Hon. Charles Sousa: Mr. Speaker, this is a good question, and I'll tell you why. That party, when they were in power, gave us a bogus budget that contained a $5.5-billion—

Interjections.

The Speaker (Hon. Dave Levac): Come to order.

Hon. Charles Sousa: Because of their practices in the past, we passed a law requiring that all governments, going forward, must be open and transparent and deliver those very opportunities for the entire province to see before the next election. We are doing that. The fall economic statement is going to be delivered very shortly as will the future reports that are being questioned here.

1050

The Speaker (Hon. Dave Levac): Before I turn to the member, I would ask him to listen.

Final supplementary?

Mr. Victor Fedeli: Again to the Acting Premier: The two reports aren't the only documents the members of the House are waiting for, Speaker. The government has withheld thousands of emails from the Auditor General and spent $500,000 on hired lawyers to stall their release. The Auditor General and this Legislature are entitled to those documents—not some of them, Speaker; all of them—and we want them now. Not only that, but the media were told in a response to a freedom of information request that no documents on consultants exist, when clearly they do.

Speaker, to the Acting Premier: The last Liberals that said there were no documents are now in a courtroom down the street. Is that where this one is heading too?

Hon. Charles Sousa: Minister of Energy.

Hon. Glenn Thibeault: Our government remains committed to being open and transparent and continues to co-operate—

Interjection.

The Speaker (Hon. Dave Levac): The member from Leeds–Grenville will withdraw.

Mr. Steve Clark: Withdraw.

The Speaker (Hon. Dave Levac): Carry on.

Hon. Glenn Thibeault: We continue to co-operate with the Office of the Auditor General. For

example, the Independent Electricity System Operator has so far provided 1,200 records to the Auditor General. OPG has provided hundreds of records. The Ontario Financing Authority has provided 3,242. The Treasury Board has provided thousands of records. We've provided 13,212. In this process, Mr. Speaker, and throughout everyday operations, we're adhering to all document retention standards.

Additionally, the ministry has informed me that we're continuing to release additional information to the Auditor General, and we're doing this because we understand the importance of providing the auditor with everything that she has asked for. The ministry has been regularly providing the Auditor General with additional responsive documents each week, and we'll continue to adhere to this process.

Ontario Hansard - 25-October2017

FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTING PRACTICES)

Mr. Peter Tabuns: My question is to the Acting Premier. This government keeps insisting that

it must spend an extra $4 billion on a complicated alternative financing scheme because it is the only way to keep ratepayer and taxpayer costs separate. But nearly 20 years ago, the government established the Ontario Electricity Financial Corp. as a way to separate taxpayer and ratepayer funds.

The problem for this government is that the OEFC debt stays on the government's books, and this government wants to keep deficits and debt off the books to make the Liberal Party look better. Will the government admit that it is wasting $4 billion in ratepayer money for no other purpose than to help the Liberal Party?

Hon. Deborah Matthews: The Minister of Energy.

Hon. Glenn Thibeault: I'm very pleased to rise and talk about the policy decision that we made as a government. We all know that the fair hydro plan is actually reducing the rates by 25% for every single household in this province and for 500,000 small businesses and farms. That policy decision made sure that we actually looked at where the borrowing was coming from, and then made sure that the borrowing stayed within the electricity system.

We actually did pull costs from the rate base and put them onto the tax base. Those were the social programs. The Affordability Fund, which we announced yesterday, is a $100-million fund which is going to help tens of thousands more people in this province with their electricity bills. We're going to continue to work for the people of Ontario and continue to provide the relief that we know they wanted and asked for.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Peter Tabuns: Again to the Acting Premier: The government could have used normal public sector accounting to achieve exactly the same policy goals, and it would have cost ratepayers $4 billion less. They could have used the OEFC to administer the program and keep ratepayer and taxpayer funds separate.

The only reason to use this $4-billion alternative financing trick is to hide the true cost of the government's hydro borrowing scheme from the public. Will the government help ratepayers instead of the Liberal Party and stop this needless waste of $4 billion today?

Hon. Glenn Thibeault: Minister of Finance.

Hon. Charles Sousa: In regard to the OEFC, it is still involved. As the member may or may not know, during our recent transaction to broaden the ownership of Hydro One, it paid down OEFC debt, in order to accommodate our work.

Furthermore, we inherited a stranded debt of almost $28 billion from the opposition, which was not a marketable opportunity, unlike what is happening here in this instance.

As we proceed forward, we are taking a proportionate amount off the tax base and we have taken a proportionate amount off the rate base, as is normal under these circumstances. OEFC is engaged, and it's doing its part.

Ontario Hansard - 15-November2017
FISCAL ACCOUNTABILITY (ONTARIO ECONOMY)

Mr. Victor Fedeli: My question is for the Premier. The fall economic statement presented yesterday in this House is nothing more than a pre-election—

Interjection.

The Speaker (Hon. Dave Levac): Stop the clock. The Minister of Tourism, Culture and Sport will come to order. The next one gets us to warnings.

Finish, please.

Mr. Victor Fedeli: This is a pre-election house of cards. As we dig deeper into the numbers, it's clear that the Auditor General and the Financial Accountability Officer are absolutely correct not to believe them.

By the government's own admission, the economy will underperform many private sector forecasts for 2017, which had growth at 3% or higher. Despite the government's narrative, it doesn't line up with the fact that growth is slowing as we speak. Yet they're still predicting a $10-billion revenue increase this year. None of that adds up.

To the Premier: Why do they continue to thumb their nose at the Legislature's independent experts, who say that the budget is not balanced?

Hon. Kathleen O. Wynne: Here are the facts that we are dealing with in Ontario.

Our economy has grown faster than all G7 countries over the past three years, and 800,000 net new jobs have been created since the recession.

Our unemployment rate is at a 16-year low, and it has been below the national average for 31 straight months.

We've beaten our deficit targets eight years in a row, and our debt-to-GDP ratio is projected to fall from around 40% to 37.8%.

The fact is that Ontario is doing very well. We are leading economic growth in this country.

What the member opposite fails to acknowledge is that there is more to be done, which is why our plan to raise the minimum wage, to ensure equal pay for equal work—those are the pillars of a fair society that apparently the member opposite is not interested in supporting.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Supplementary.

Mr. Victor Fedeli: Back to the Premier: Well, again, none of that is agreed to by the Auditor General or the Financial Accountability Officer. By almost every metric, this government has underperformed since the 2017 budget. Revenues are up only $115 million—nowhere close to their forecast—yet expenses are up $215 million since the budget. Personal income tax and health premium revenue is down $1.8 billion since the budget, yet they still say that revenue will increase by $10 billion this year.

We have rosy, glowing predictions from the government, but in reality the numbers just aren't there. The truth does not fit with their narrative.

Why does it always take the Auditor General, the Financial Accountability Officer or the OPP to get to the truth in this government?

Hon. Kathleen O. Wynne: The reality is that corporate revenue is up. The fact is that our economic growth is leading the country.

Yesterday, this party across the floor promised that they would roll back the $15 minimum wage. They would kick the increase to $15 over a four-year phase-in—

Interjections.

The Speaker (Hon. Dave Levac): Your decision is made. We're in warnings.

Hon. Kathleen O. Wynne: They would kick the increase to $15 an hour down to a four-year phase-in, which is tantamount to denying that increase. It is tantamount to not allowing people to catch up. The fact is that, although the province is doing well, not everyone in the province—

Interjections.

The Speaker (Hon. Dave Levac): The member from Renfrew–Nipissing–Pembroke and the member from Leeds–Grenville are warned. If you don't get the message, I'll give it to you.

Final supplementary.

Mr. Victor Fedeli: Back to the Premier: The experts have been clear that the government has been using one-time revenue to fluff up their budget numbers.

Money from the Hydro One sale? That's over now. From land transfer tax? The housing market is cooling. From federal transfers? That fluctuates every year.

Now, without these massive, one-time revenues, the government still says annual revenue growth will be 4% over the next four years, but the Financial Accountability Officer says it will average just 3%. It doesn't sound like much, but those are billions of dollars apart. None of what they're saying adds up whatsoever.

Speaker, if the independent legislative experts don't believe this government's numbers, why should any Ontario families?

Hon. Kathleen O. Wynne: Minister of Finance.

Hon. Charles Sousa: The member opposite maybe didn't read this fall economic statement, because we revised our numbers from 2.3% real GDP to 2.8% real GDP, which is lower than independent economists predict for the continuing growth of our economy and for the province of Ontario. In fact, HST has gone up, showing consumer confidence. Business investment is going up, showing business confidence, Mr. Speaker. Our accumulated deficit over the past 25 years is lower today than it has ever been, and our debt-to-GDP is improving.

The member opposite is making reference, but he is not acknowledging that the independent economists, the independent review and the investors are showing confidence in our province because we are winning and we are supporting opportunity at the same time, creating fairness so that every individual in this province does get a fair wage and businesses get their fair share. We are all improving our economy and we are working together, Mr. Speaker.

Ontario Hansard - 15-November2017
GOVERNMENT FISCAL POLICIES (GOVERNMENT RECORD)

Mr. Shafiq Qaadri: My question is to the Minister of Finance. All Ontarians, I think, can be encouraged by yesterday's release of the fall economic statement, which demonstrates that our government is working to create fairness and opportunity during this period of rapid economic change.

It's also clear that our path to balance is on track. Most importantly, unlike the approach of other parties, this is not being achieved by slashing and burning the services that people depend on, and it's being supported by a thriving economy.

As you will know, Speaker, businesses have created more than 800,000 net new jobs since the 2008 recession, and 300,000 jobs are expected by 2020. Real GDP is now forecast to grow at a healthy 2.8%, a very substantial increase from the previous budget projection.

A balanced budget allows for more money to invest in things that matter to everyone in Ontario: schools, hospitals, roads, bridges and more.

To the minister: Est-ce que vous pouvez élaborer sur le travail et les mesures que notre gouvernement fait?

Hon. Charles Sousa: Thank you for the question from the member from Etobicoke North. Our government is delivering a balanced budget. We've beaten our fiscal targets for the eighth year in a row. Net debt to GDP has improved to 37.3%. Our strengthening investments continue to attract private and foreign direct investment.

The numbers show that our policies are working. Real GDP growth is above projections. In fact, over the last three years, Ontario's real GDP growth exceeds that of all G7 countries. Our businesses have created over 800,000 net new jobs, as indicated, bringing our unemployment rate below the national average for 31 straight months. We've managed growth in program spending, making Ontario the leanest government in Canada.

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Mr. Speaker, Ontario has come out of the recession stronger but we know there is more to do. We want to ensure everyone in Ontario benefits from our strong economy. That's why we're taking steps to support workers and their families to create more fairness and opportunity for all hard-working Ontarians.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Shafiq Qaadri: Thank you, Minister. I think it's clear that our growing economy, together

with a balanced budget, is creating more and more opportunities for businesses and individuals across Ontario.

On the ground in my own riding of Etobicoke North, this is reflected, for example, by the $400-million expansion of Etobicoke General Hospital which, I would respectfully remind the House, is also part of the William Osler system.

We know, Speaker, that policies which build our people up are what matter most to Ontarians. That's why I'm proud to stand with a party that's increasing the minimum wage to $15 an hour, coming up shortly. We know that hard-working people are struggling to put food on their tables and they cannot wait for years for this pay increase.

We know that students—over 200,000 of them—will be benefiting from free tuition.

And Speaker, as a doctor, I have to support OHIP+, the greatest expansion of pharmacare in a generation, as was mentioned.

Speaker, we know our historical investments to infrastructure—$190 billion over 13 years—will spur economic growth. Can the minister please detail more of these initiatives?

Hon. Charles Sousa: Thank you again for the question. We're building a stronger, fairer Ontario. We're designating another $155 million in supports for our seniors strategy, so our seniors can live independent, healthy and active lives. We're helping to build more competitiveness in our business environment by providing another $500 million in new initiatives for small business. We're cutting WSIB costs and reducing red tape further. It includes more incentives to businesses to hire young people—$124 million over three years—as well as new grants to encourage employers to hire apprentices, up to $19,000 per apprentice. Mr. Speaker, we're creating the third pillar to our post-secondary education system to support our indigenous institutes. We've also announced $5 million in extra dollars for the north through our Ontario Municipal Partnership Fund. This is our balanced approach to create fairness and opportunity for the people of Ontario.

Ontario Hansard - 27-November2017
GOVERNMENT FISCAL POLICIES

Mr. Victor Fedeli: My question is for the Minister of Finance. Life is unaffordable in Ontario. Families are working harder, paying more and getting less than in any other province in the country. That's why the government needs to do more to alleviate the tax burden on the middle class.

This weekend, the Ontario PC Party and our leader, Patrick Brown, laid out our plan: the People's Guarantee. One part of that guarantee was a 22.5% cut to income taxes for the middle class—

Interjections.

The Speaker (Hon. Dave Levac): Stop the clock. So that all members realize, I have not changed the direction that I'm trying to bring our House to. Today is no different. If I'm getting the signals that that is going to change, I will start with warnings very quickly, just to set the tone.

Please carry on.

Mr. Victor Fedeli: Mr. Speaker, an Ontario PC government would bring real change for middle-class families. Why won't this Liberal government?

Hon. Charles Sousa: Mr. Speaker, it's a real honour to be able to stand before you and the rest of this House to acknowledge the tremendous work that Ontarians have done to bring our economy to where it is today, and recognizing that it has only been possible because of the stimulus and the balanced approach that we've taken to ensure that we recover from this global economic downturn that has been sustained for a long period of time—and, yet, Ontario leads Canada, it leads the G7, and for that matter, Mr. Speaker, we are continuing to create more jobs than ever before.

The member opposite, the critic, and the Leader of the Opposition have long advocated for balanced budgets, and Mr. Speaker, the largest deficit in Canadian history was voted on by the Leader of the Opposition—$16 billion. That is their plan. They're taking the province into deficit going forward.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: I'll send a copy of the plan over to you and you can have a real look at it.

Ontario used to be a province where if you worked hard, spent wisely and saved diligently, a family could get ahead. They could build a better future for their children. But that's not the case

in Ontario any longer, Speaker. Families are struggling and some are falling behind. They need help. That's why we know Ontario families need lower taxes—

Interjections.

The Speaker (Hon. Dave Levac): Excuse me. Stop the clock. We're in warnings.

Carry on.

Mr. Victor Fedeli: —22.5% lower income taxes for middle-class families, Speaker, would make a significant difference in the lives of those trying to get ahead. But we can't trust the Liberals to make life more affordable. Why should anyone in Ontario trust them?

Hon. Charles Sousa: Mr. Speaker, this government, under the leadership of Premier Kathleen Wynne, has instituted progressive measures while at the same time managing our expenses. We are providing free tuition for students, free pharmacare for everyone under the age of 25 and 100,000 more child care spaces.

The member opposite is advocating for cuts—cuts to education and cuts to health care, Mr. Speaker; that is their plan. We on this side of the House will take a balanced approach to ensure that we can afford the things that matter to Ontarians, while that side is cutting revenues and cutting across the board the very services that matter to us. We on this side of the House will always look after the people of Ontario.

The Speaker (Hon. Dave Levac): Final supplementary.

Mr. Victor Fedeli: Back to the minister: That is a complete fabrication, Speaker—

Interjections.

The Speaker (Hon. Dave Levac): The member will withdraw.

Mr. Victor Fedeli: Withdraw.

For 14 years, we have seen Liberal insiders get rich at the expense of the people of Ontario. While the government lined the pockets of high-priced executives, middle-class families struggled. It's not their imagination. Middle-class wages have stagnated for 14 years while Liberal taxes and fees continued to rise. Thanks to this government, middle-class Ontario is poorer than the average Canadian.

So, Mr. Speaker, we have to ask: When did the Liberals decide they were the government for the insiders and no longer for the people?

Hon. Charles Sousa: Page 76 of their plan made it very clear, Mr. Speaker: Over $12 billion is what's being cut across the board from the people of Ontario. So the question becomes, what are you going to cut?

Furthermore, they're making decisions only on election cycles. They don't want to go long-term or look beyond. We've got to have a long-term vision on things that matter—

Interjections.

The Speaker (Hon. Dave Levac): You may choose your last comment that could get you the warning. When I stand, you stop.

Finish, please.

Hon. Charles Sousa: We've created over 800,000 net new jobs, primarily in the private sector. The economy is growing. I recognize that many across the province don't feel the same benefit as others with our prosperity. We need to do better, and I said so in the fall economic statement. I hope the member opposite will approve and support the fall economic statement. That's a real plan for the real people of this province to make sure they get real prosperity going forward.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Interjections.

The Speaker (Hon. Dave Levac): You can take the risk, if you'd like to keep talking.

New question.

Ontario Hansard - 27-November2017
GOVERNMENT FISCAL POLICIES

Mr. Victor Fedeli: My question is for the Minister of Finance. First they disparage the Auditor General, then they disparage the Financial Accountability Officer, and now they disparage Kevin Page, the former budget officer.

In the 1990s, Ontario's average income was 10% above the national average. But in 2012, income in Ontario fell below the national average for the first time ever. In fact, between 2005 and 2015, Ontario families saw the slowest rate of income growth of any province in Canada. Once the envy of the country, middle-class Ontarians now struggle. They work harder, pay more and get less under this Liberal government.

Why has the Liberal government spent 14 years allowing middle-class families to struggle to keep their heads above water?

Hon. Charles Sousa: That is rich coming from that side of the House. We're providing for an increase in the minimum wage that they are now denying the people of Ontario. Stand up and fight for the people of Ontario. We have a 5.9% unemployment rate, the lowest it has been, and it has been below the national average for 31 months.

We will continually support everyone in this province for the sake of the families of this province. They're putting at risk their livelihood. They are instituting a much more expensive carbon tax to the people of Ontario. We recognize that that will put us in harm's way. We need to be competitive for businesses and competitive for the people of Ontario, where everyone should share in that growth. That is why we are increasing minimum wage to $15, and they are not.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the minister: This government brought in some of the largest tax increases in Ontario's history. Between the health tax, the HST and other fees, the Liberals have made life unaffordable.

Every day, families email and call our offices. They share their stories and tell us they just don't have any money left. That is why we can't trust this Liberal government. That is why a PC government will reduce income taxes for the middle class, that's why a PC government will increase the Ontario Sales Tax Credit, and that's why an Ontario PC government will make life more affordable for Ontario families. That's what is fair. Why won't the Liberals make life affordable for Ontario families?

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Hon. Charles Sousa: We know their plan in the past and we hear it now going forward. It's not much of a plan because what they're going to do in order to achieve deficits, no less—they're promoting deficit spending going forward. We are going to balance this year, next year and the year after that. In order for them to achieve even a little bit of that deficit that they're proposing, they're going to go back to firing nurses, closing hospitals, reducing funding for health care—

Interjections.

The Speaker (Hon. Dave Levac): Finish, please.

Hon. Charles Sousa: We have been disciplined and determined in our plan to recover and to plan to come to balance, and it's being achieved. The members opposite are going to put our economy in harm's way by taking the excessive actions that they're proposing, which will in essence put us at a disadvantage over other jurisdictions around the world.

We will continue to be free traders and continue to support Ontario.

The Speaker (Hon. Dave Levac): Final supplementary.

Mr. Victor Fedeli: Back to the minister: This is about trust. This is about looking out for families across Ontario. This is about making life more affordable. That is why we need to lower taxes in Ontario after years of Liberals raiding middle-class families to pay their Liberal insiders. If you want to know what the Liberals will do, just look at what they've done for the last 14 years. The Ontario PCs will make life more affordable. Why do the Liberals continue to make it harder for Ontario families to succeed?

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please. Thank you.

Minister.

Hon. Charles Sousa: It is all about trust, and I can tell you this: We can trust this government to continue to fight for the people of Ontario while the opposition, you can trust them to cut the very measures that matter to Ontarians.

I can tell you this: When we provided free pharmacare for everyone under the age of 25, they voted against that. They'll take that away. When we were talking about providing free tuition for students so they can get a better start in life, they voted against that as well. That's what you can trust from that side of the House.

We can also trust that when the Leader of the Opposition was in power federally, he voted in the largest deficit in our history. And the largest debt increase in Canadian history came from the Leader of the Opposition. The critic now stands here and suggests that somehow cutting revenues as well as—Mr. Speaker, cutting revenues and going into deficit spending is not what's in the best interest of the people of Ontario.

We need to provide programs and services that—

The Speaker (Hon. Dave Levac): Thank you.

Ontario Hansard - 12-December2017
FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTABILITY)

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Minister of Finance. The Financial Accountability Office showed us that Ontario is working with three sets of books. That is simply ridiculous. We need one set of books, one true set of numbers, to guide us.

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There's a way to do this, and that's for the government to follow the law, pass a regulation and release their pre-election finance report. The Auditor General said, "It is in the public's interest for the government to give us a pre-election report to examine as soon as possible, with sufficient time to do our work." This will give us one number, one set of books.

Will the government tell us when they will be bringing the regulation forward and when they will present the auditor with their pre-election finance report?

Hon. Charles Sousa: The reason there is a pre-election report is because this government mandated it, because of the elimination—and the fact that they held and hid a deficit throughout their proposals when they were coming into a budget.

We are balancing the books. I thank the FAO for the work they're doing around the sensitivity. He acknowledges that our economy is growing, that we have taken steps to balance the budget. In fact, public accounts, which is the one that matters most as to what has happened to this day, illustrates that we beat again our targets last year by over $3 billion to under $0.1 billion in terms of our actual results.

I acknowledge the work that's being done by the FAO, and I recognize that the member opposite, with his own promises, is unable to keep them because his own analysis states that they are not going to be able to achieve it. I will say more in the supplementary.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the minister: Families need to be able to trust what the government says about our finances. They deserve a true fiscal picture. That's only fair.

But the Auditor General has refused to sign off on Ontario's books multiple times under this Liberal government. The auditor has one more opportunity, and that's to review a pre-election finance report. First, the government must pass a regulation confirming it will release a pre-election report by a committed deadline. We want one set of books so we can truly assess the damage that the Liberals have done to Ontario.

Speaker, I'll ask again, will the government tell us when they will be bringing the regulation forward and when they will present the auditor with their pre-election finance report?

Hon. Charles Sousa: We are using the accounting principles that have been provided over the last 16 years. In fact, an independent review of the government's pension accounting and other things that was commissioned illustrated—with an expert panel concluding—that the province's accounting treatments are correct. I'll leave those disputes to the accountants.

But I'll say this, Mr. Speaker. Kevin Page, the individual who assessed the People's Guarantee, says the following:

"Re: Assessing the reasonableness of the estimates of the fiscal plan underlying the 2018 election platform of the Progressive Conservative Party....

"We caution readers that the provision of an opinion on the reasonableness of the estimates underlying the fiscal plan includes the reliance on third parties for information."

He says that they are "not currently in a position to pronounce" on those expectations, saying, "We look forward to seeing more detailed plans in the future."

Their numbers are based on ours, and they are estimating a deficit with what we're saying is—

The Speaker (Hon. Dave Levac): Thank you.

New question.

Ontario Hansard - 14-December2017
GOVERNMENT'S RECORD

Mr. Steve Clark: My question is to the Premier.

The voters are skeptical; that is no lie,

But we have to reflect and ask ourselves why.

From this side of the aisle, it's plain to see.

Premier, will you be accountable and sign the People's Guarantee?

Hon. Kathleen O. Wynne: Minister of Economic Development and Growth.

Hon. Brad Duguid: 'Tis the last question period

before Christmas

And I must say, with much passion,

We will bring in a minimum wage of $15,

With or without your attention.

We will lower energy rates,

We will create jobs as well.

This Christmas will be great for Ontario,

We're working to make things swell.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Supplementary? The member from Bruce–Grey–Owen Sound.

Mr. Bill Walker: To the Premier:

In question period, politicians, they go back and forth

When people want change for taxes

and support for the north.

So I'll ask again, because no answer was found:

Will you sign the People's Guarantee

when I sit down?

Hon. Brad Duguid: To the Minister of Finance.

Hon. Charles Sousa: The halls of the Legislature are haunted by the ghosts of Christmas past. They bring to us today the likeness of the miser Ebenezer Scrooge from across the aisle: they who have wanted to make cuts to supporting our families, to deny the gifts of our province's prosperity, to share for all.

On this side of the aisle, we thank the Premier and the jolly red grandmothers of Ontario, who, like Santa Claus, care for all of our children.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

New question.

FOIs/OPQs

Overview	Key Issues	Key Dates
OPQ 677 - MPP Fedeli Would the Minister of Finance state whether he accepts the Financial Accountability Office's 2017 Fall Economic Outlook assessment of the state of Ontario's fiscal position, given that the FAO stated Ministry of Finance bureaucrats did not disagree with any of the information in their report. (Tabled February 20, 2018) ***Proposed response with Minister's Office**	**Financial Accountability Office's 2017 Fall Economic Outlook**	OPQ House due date April 16
OPQ 636 - MPP Fedeli Would the Minister of Finance state on what page(s) in the Fall Economic Statement he has made corrections to reflect the concerns of the Auditor General and the Financial Accountability Officer about the validity of the province's stated fiscal position. (Tabled December 04, 2017) ***Proposed response with Minister's Office**	**Fiscal Position** **Financial Accountability Office & Auditor General reports**	OPQ House due date March 26

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Sessional Paper No. 677

677. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state whether he accepts the Financial Accountability Office's 2017 Fall Economic Outlook assessment of the state of Ontario's fiscal position, given that the FAO stated Ministry of Finance bureaucrats did not disagree with any of the information in their report. (Tabled February 20, 2018)

Response:

The government values the Financial Accountability Office's independent assessment and projections of the province's fiscal plan.

The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive. As outlined in the *2017 Ontario Economic Outlook and Fiscal Review* (FES), the government is projecting a balanced budget for 2017–18, consistent with the FAO's projection for this year.

In addition, The FAO's real GDP projections are aligned with the *2017 FES* over the 2017 to 2020 period. The government's economic projections are informed through regular consultations with private sector economists. In fact, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecasts, in keeping with prudent fiscal planning.

The FAO's outlook continues to incorporate the Auditor General's accounting interpretation for pension assets and the Fair Hydro Plan, which differs from the government's accounting treatment. However, the government prepares its financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB).

- In the *2016-17 Public Accounts of Ontario*, this included Public Sector Accounting Standards (PSAS) for pension asset accounting that have been used since 2001.

- The government's accounting presentation of the Fair Hydro Plan is appropriate under Canadian PSAS, and is in accordance with guidance provided for rate regulated entities under U.S. Generally Accepted Accounting Principles (GAAP).

We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

Sincerely,

Charles Sousa
Minister of Finance

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Sessional Paper No. 636

636. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state on what page(s) in the Fall Economic Statement he has made corrections to reflect the concerns of the Auditor General and the Financial Accountability Officer about the validity of the province's stated fiscal position. (Tabled December 04, 2017)

Response:

The *2017 Ontario Economic Outlook and Fiscal Review* (FES) provides an update to the fiscal and economic plan presented in the *2017 Ontario Budget*, and continues to demonstrate the government's approach to responsible fiscal management.

The Auditor General's Office and the Financial Accountability Office have raised two areas of concern with respect to the government's accounting: pension assets and the Fair Hydro Plan.

The government prepares its financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB). In the 2016-17 Public Accounts of Ontario, this included Public Sector Accounting Standards (PSAS) for pension asset accounting that have been used since 2001.

This is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'). The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, was established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian PSAS, even though the Province did not have a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded; and

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or the Ontario Public Service Employees Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

Similarly, with the support of external advisors, it was determined that the accounting presentation for the Fair Hydro Plan – according to guidance provided for rate regulated entities under US Generally Accepted Accounting Principles (GAAP) – is appropriate under Canadian PSAS.

For the current status of the Province's fiscal plan, please refer to *Chapter 3, Section C: Fiscal Outlook* of the 2017 FES.

Sincerely,

Charles Sousa
Minister of Finance

Supporting Materials: House Book Notes

January 31, 2018

ONTARIO'S FISCAL OUTLOOK

What is Ontario's Fiscal Outlook?

SUGGESTED RESPONSE

- **Ontario is delivering on its commitment to balance the budget in a fair and responsible way — a plan that was first introduced in the *2010 Budget*.**
  - **Over the medium term, revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20, while total expense is projected to increase from $141.7 billion to $157.4 billion over the same period.**
- **The Public Accounts of Ontario 2016–2017 reported that the 2016–17 deficit was $1.0 billion. This result is $3.3 billion lower than projected in the *2016 Budget*.**
  - **This marks the eighth year in a row that Ontario has beaten its deficit target.**
- **Investments have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global environment. Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries. Exports are up, businesses are hiring more workers and household incomes are rising.**
- **A growing economy, together with a balanced budget, is creating more opportunities for individuals and businesses in Ontario to share in the benefits resulting from the province's return to economic strength.**
- **Since peaking in 2014–15 at 39.3 per cent, the net debt-to-GDP ratio has been on a declining track as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.**
  - **The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

February 1, 2018

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **The first very important step in reducing debt is to balance the budget. Balanced budgets from 2017–18 onwards will ensure that the increase in net debt is limited to net investments in capital assets.**

- **The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been on a declining trend since then. It is projected to be 37.3 per cent at the end of 2017–18, 0.2 per cent lower than was forecast in the *2017 Budget*. This ratio is projected to continue to decline to 37.1 per cent in 2018–19.**

- **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest about $190 billion over 13 years, starting in 2014–15. These investments will not only create jobs, but will also contribute to the economy growing at a faster rate than the net debt.**

- **The positive impact of capital investments on the Province's economy was confirmed by the Centre for Spatial Economics which reported recently that, over the long term, GDP in Ontario increases by $6 for every dollar of public infrastructure spending.**

- **The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

- **In June 2016, the International Monetary Fund (IMF) released a report recommending that Canadian "fiscal policy should be pro-growth." Christine Lagarde, Managing Director (IMF), also expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element of the strategy.**

Borrowing Program

- **As of January 31, 2018, the Province has successfully completed its borrowing requirement of $25.8 billion for 2017–18. To date, the Province**

has borrowed $28.6 billion, including $2.8 billion in pre-borrowing for 2018–19.

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

  - **Interest on debt to revenue is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20. The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period to 2019–20.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of January 31, 2018, the average term for new borrowing in 2017–18 was 13.7 years compared to 8.1 years in 2009–10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $70.1 billion of bonds with maturities longer than 30 years to lock in low rates. As interest rates begin to rise, the Province will assess whether it remains cost-effective over the long term to continue to extend the term of its debt.**

February 6, 2018

ONTARIO'S CREDIT RATINGS

What are the credit rating agencies' views on Ontario?

SUGGESTED RESPONSE

- **All four rating agencies have a stable outlook on Ontario's credit ratings. This reflects rating agencies' confidence in our government's fiscal plan and its ability to grow Ontario's economy and create jobs for Ontarians.**

Quotes:

- **"The outlook is stable. This reflects our forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon." (Moody's, February 2 2018)**

- **"The ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden." (DBRS, June 28, 2017)**

- **"S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget." (S&P, June 15, 2017)**

- **"The return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term, which will slowly rebuild flexibility within the rating." (DBRS, April 28, 2017).**

Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

BACKGROUND

S&P:

Why is S&P's rating for Quebec higher than Ontario?

Although Ontario's budgetary performance has improved, S&P believes that it will continue to lag that of Quebec. S&P gives a lot of credit to Quebec for the Generations Fund, and the implicit $2-$3 billion per year surplus that it results in.

- Quebec is expected to record an operating surplus of close to 9% of revenues on average over 2015-16 to 2019-20, compared to close to 4% for Ontario. In addition, S&P expects Quebec to record after-capital surpluses of over 1.0% of total revenues over 2015-16 to 2019-20, compared to an after-capital deficit of 3.1% for Ontario over the same period.

S&P believes that Ontario's credit profile is strengthening however, they will need to see a track record of consistent operating surpluses and balanced or near-balanced after-capital results coupled with continuing declines in direct and tax-supported debt burdens that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action on the province.

- Quebec's tax-supported debt as a share of revenues is expected to average 217% over the 2015-16 to 2019-20 period, while Ontario's tax-supported debt is expected to average 246% over the same period.

S&P's Report on Ontario – June 15, 2017

S&P believes that Ontario's credit profile is strengthening however, they will need to see a sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action.

S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing the Province to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget.

The stable outlook reflects expectations that within the next two years the province will sustain a more balanced budgetary performance, including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low

contingent liabilities. The ratings also reflect S&P's view of the province's weak budgetary performances and very high debt burden.

S&P Lowers Ontario's Short-term Rating to A-1 from A-1+ – June 15, 2017

S&P lowered Ontario's short-term rating to A-1 from A-1+reflecting their revised methodology". This is the highest short-term rating for an issuer with an A+ long-term rating, unless the issuer's liquidity is viewed as exceptional. Ontario's short-term borrowing costs are unaffected by this change as this simply reflects a change in their methodology rather than any change in the quality of Ontario's credit.

S&P Mapping of Short-Term Ratings to Long-Term Ratings

Long-Term Rating	Short-Term Rating
AAA, AA+, AA, AA-	A-1+
A+, A	A-1
A-, BBB+, BBB	A-2
BBB-	A-3
BB+, BB, BB-, B+, B, B-	B
CCC+, CCC, CCC-, CC, C	C

Moody's:

Moody's Report on Ontario – February 2018

Moody's updated their Credit Opinion for Ontario following the release of their rating on the Fair Hydro Trust (FHT) on January 22nd. Moody's is now including debt issued by the Fair Hydro Trust in their key debt measure for Ontario. "While FHT, which was created at the behest of the province, is designed to be self-supporting (pay principle and interest through revenue generation) on a life-cycle basis, it is not currently as it faces a moratorium on revenue generation. Further, FHT carries the possibility that a provincial guarantee of its debt may be invoked in certain prescribed circumstances."

They do note that the total financing required is "nonetheless fairly negligible given the province's high net direct and indirect debt level." They also note that they will review this treatment once revenues from the Clean Energy Adjustment charge is added to consumers' electricity bills in 2021.

The stable outlook reflects Moody's forecast that the debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon.

Moody's noted the following credit strengths:

- Institutional framework provides significant fiscal policy flexibility

- Prudent debt management waith a focus on market access and debt affordability
- Revenue supported by a diversified economy with a broad and productive tax base

Moody's highlighted a number of credit challenges:

- High debt burden and debt will continue to increase despite balanced budget projections
- Elevated interest expense, with higher rates anticipated
- Rising expenditures risk to balanced fiscal targets

Factors that could lead to a downgrade:

A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

DBRS:

DBRS 2018 Canadian Provincial Government Outlook – November 17, 2017

DBRS notes that most provincial ratings are expected to remain relatively stable.

Economic fundamentals have exceeded expectations in 2016 and 2017, enabling most provinces to finish the year better than expected while increasing spending or reducing taxes. Growth will likely slow over the medium term as cyclical influences diminish.

Ontario's credit profile is improving. However, the province has only recently balanced its budget, debt is significantly higher than it was before the recession and the pace of debt-to-GDP reduction is gradual. In past recessions, the policy response and economic contraction led to significant increases in the debt-to-GDP ratio. A similar economic impact and policy response could put downward pressure on the rating.

DBRS notes that Ontario intends to maintain balanced budgets, with rising revenues being directed into program spending. Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio. DBRS expects debt to decrease to 40.0% of GDP over the medium term.

The ratings for Ontario and New Brunswick appear most at risk of a negative rating action if the economy were to face a severe recession, while a downturn may accelerate the pace of a rating change in Alberta.

DBRS Report on Ontario – June 28, 2017

DBRS notes that the ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden.

The better-than-expected result stemmed from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

Debt growth has slowed with the return to balance. The DBRS adjusted debt-to-GDP ratio, which is currently at 43.3%, is projected to approach 40.0% of GDP over the medium term.

DBRS expects the ratings to remain stable. Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.

A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies. In contrast, an upgrade would require a significant reduction in the provincial debt burden.

DBRS Commentary on Ontario's Plan to Reduce Electricity Prices – March 2017

DBRS views the proposed changes as credit neutral, since the Province has the ability to absorb the fiscal impact while still restoring budgetary balance in 2017–2018.

The Province will recover the debt and financing costs associated with reducing the Global Adjustment through future electricity rates. Provided the debt continues to be fully supported by the electricity rate base, DBRS will treat it as self-supported and exclude it from tax-supported debt. DBRS will re-evaluate once more information becomes available.

DBRS Report – October 2016

DBRS released a report stating that spending on infrastructure "can result in higher nominal GDP that can be large enough to result in a declining government debt ratio." According to DBRS, "historically low interest rates are providing a window for governments to lock in low rates on public investment projects."

Fitch:

Fitch Report on Ontario – June 2017

The tabled budget for fiscal 2018 completes the province's plan to eliminate its annual budget deficits by fiscal 2018. Despite some variations to the plan announced in the 2010 budget, the province has remained committed to this fiscal goal.

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives. Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Confirmed February 2, 2018
DBRS	AA (low)	R-1 (mid)	Confirmed June 28, 2017
Fitch	AA-	F1+	Confirmed June 20, 2017
S&P	A+	A-1	Long-term rating confirmed; short-term rating lowered June 15, 2017

Supporting Materials: Other Considerations

MEDIA EVENT: AUDITOR GENERAL BONNIE LYSYK ANSWERS QUESTIONS FOLLOWING RELEASE OF HER ANNUAL REPORT

Date / Time / Location:

December 6, 2017 / Noon / Queen's Park Media Studio

Speaker:

Ontario Auditor General Bonnie Lysyk

Media Attendance:

Print – 11 TV – 4 Radio –

Media Outlets:

Benzie – Star; Ferguson – Star; Boyle – Star; Giovanetti – Globe; Artuso – Sun; Smith Cross – QP Briefing; Hains – QP Briefing; Reynolds – QP Briefing; Smith – QP Today; Crawley - CBC Radio/TV; Carter – Global; Tumelty - City TV; Morissette – TFO; McGrath – TVO.

Statement:

Hello, everyone. I'm Bonnie Lysyk and I'm the Auditor General of Ontario. And, thank you for the opportunity to discuss our 2017 Annual Report with you today. This report, my 5th, contains fourteen Value For Money audits, which we call VFMs for short. Seven of them are in the health and education sectors that together account for more than 2/3 of all government spending. This report also provides several important cautions about recent changes to the government's financial reporting processes. I'll have more to say on that in a few minutes. But I want to start with the VFMs. Each year, we look for common themes that run through all of our audits. One that emerges year after year is that the decision makers do not always have all of the information needed to make the most appropriate decisions. A related theme in many of this year's VFMs is the need for governments to improve longer-term planning that supports timely, and informed decision making and oversight. This will be become readily apparent as I summarize the VFMs.

Our audit of emergency management in Ontario found that the last provincial risk assessment was based on emergencies experienced in Ontario up to 2009. That means the current provincial emergency management program has not planned for more recent and evolving threats related to climate change, cyber-attacks, and terrorism. In addition, the Provincial Emergency Response Plan and the Provincial Nuclear Response Plan have not been updated since 2008 and 2009 respectively.

Our audit of the IESOs market oversight and cyber security found that the Ontario Energy Board's market surveillance panel has said in thirty reports since 2002 that Ontario's Electricity Market is vulnerable to manipulation because of design weaknesses and flaws. Some market participants have exploited these flaws, resulting in millions of dollars of additional costs for rate payers.

Our audit of cancer treatment services, found that Ontarians needs were not fully being met in the areas of radiation treatment, head scans, and wait times for some urgent cancer surgeries and diagnostic services. In addition, the province's limited capacity to preform stem cell transplants was first identified as an issue in 2009. In the next six years, this issue led to excessive wait times and costly out of country procedures. Only in 2016/17 did the Ministry of Health and Long-term Care approve capital projects to expand stem cell transplants in Ontario. Earlier planning could have mitigated many of those difficulties.

Our audit of laboratory services in the health sector found that the Ministry of Health and Long-Term Care will in 2017/18 update the prices it pays private sector community labs for medical tests. Nearly twenty years after its last major price update. The province could have saved $39 million in 2016 alone, if it had planned to implement the new prices just two years earlier.

Our audit of social and affordable housing found that Ontario's social housing wait list has increased 36% in the last 13 years. Challenges are also likely to increase, in the medium term, as contracts with housing

providers offering below market rents on 83,000 units have begun to expire and will continue to expire over the next 15 years. Despite this however, we found there is no provincial strategy in place to address Ontario's growing social housing wait list.

We noted during out audit of the assessment review board, that as of March 31, 2017 the board had a back log of more than 16,000 unresolved appeals, but put a plan in place to reduce that backlog. We also noted in our related audit of the Ontario Municipal board, that this board took between 10 months and almost seven years to close complex cases. However, this board had no plan to place -- no plan in place to handle the existing workloads and reduce the delays.

The Ministry of Agriculture, Food and Rural Affairs is responsible for four main farm support programs to help farmers manage production risk and price risks. However, our audit found that the ministry's existing programs would likely not be sufficient to provide support during extended market crises or natural disasters. And the Ministry had no explicit plan for dealing with such major issues.

Our audit of settlement and immigration programs in Ontario found that there was only limited coordination between the federal and provincial governments to avoid duplication of services. We estimated that in 2016-17, for example, about 30 million in Ontario-funded newcomer's services duplicated services there were already funded by the federal government.

We audited real estate services provided by Infrastructure Ontario. With respect to the province's real estate portfolio of about 4,800 buildings we noted that Ontario spent almost 19 million in 2016-17 to operate and maintain 812 vacant buildings across the province. The majority of these buildings had been vacant for an average of almost eight years.

The Ontario public drug programs provide drug coverage to 4 million people at an annual net cost of $4.9 billion. It found that the Ministry paid $271 million more than some Ontario hospitals in 2016-17 for the same drugs, indicating that opportunities exist for the province to get more discounts on generic drugs.

Ontario's 75 community health centres provide health care services and community programs to vulnerable populations and have the potential to help lessen the load on the overall health care system. However, the province lacks the critical information needed to determine whether the centers are cost effective in providing quality care.

Our audit of public health chronic disease prevention noted that Ontario has no overarching policy framework on chronic disease prevention to guide overall program planning development and continuing program evaluation. Plans are needed on how to collectively address important contributors to chronic disease, such as physical inactivity, poor diet, and heavy drinking.

We conducted audits of school boards management of financial and human resources and of the Ministry of Education's funding and oversight of school boards. The funding formula used by the Ministry to fund school boards has not been fully reviewed since 2002. As well, the ministry is not monitoring school boards use of special purpose funding to address such priorities as students at risk of low academic achievement. As a result the Ministry does not know whether this special purpose funding is meeting its stated priorities.

In addition to the VFM's, every annual report contains follow up work on audits of two years earlier. So this year we review the government's progress on the actions we recommended in our 2015 annual report. We found that government ministries and agencies made some progress toward implementing 71 per cent of the actions recommended in the 2015 annual report, but only 33 per cent of them were fully implemented. New this year we also looked at the progress made with recommendations from 2012, 2013 and 2014 and found by 2017 the rate for full implementation was only about 50 per cent for each of those years. However, on a positive note, we were told that work continues on implementing most of the remaining recommendations.

Turning to government advertising, in 2016-17 the government spent more than $58 million on advertising, the most since 2006-07, with just over 30 per cent of that for ads we believe had as their primary goal to foster a positive impression of the government party.

Now I mentioned earlier that government needs good information to make good decisions. All Ontarians also need good financial information on government finances to help them assess the government's performance. Financial numbers tell a story. If that story is not truthful, it risks breaking the trust that must exist between the government and the people. This year, our October 2017 Special Annual Report on the Government's Financing and Accounting Design Under the Fair Hydro Plan also raised a significant question of value for money. Why would the government create an unnecessary complex and opaque structure to borrow when it will cost more for Ontarians? The response we heard was that it is being done to keep ratepayer and taxpayer costs separate. This is not the full story. These costs can be kept separate without incurring the extra borrowing expenses that the Office of the Financial Accountability Officer estimated at about $4 billion. The government has challenged this figure but to my knowledge, it has offered no new estimate to update the $4-billion figure. We are aware that the government did it this way because of its desire to ensure this policy decision is not reflected in the annual deficit. In other words, by creating a needlessly complex financing structurer rather than using traditional borrowing methods at lower interest rates, the government consciously decided to incur more costs, potentially up to $4 billion more, to try to keep the bottom line and net debt impact of the Hydro Rate Reduction policy decision from showing up on the province's consolidated financial statements. This is by far the most serious value for money issue this year. Chapter 2 in our annual report highlights our concerns on this and other financial matters.

Again, on the issue of transparency, there is another potential issue on the horizon in the new year: the government's pre-election report on Ontario's finances and the subsequent review of it. The work can only take place when the government passes a regulation confirming that it will release a pre-election report by a deadline that it sets, and which has to be done prior to the voting day. The process went smoothly in the last two regularly scheduled elections, which were both held in October. The government issued its pre-election report after the spring budget, and we had about ten weeks to review it and issue a report. Ontarians then had more than three months to digest both documents before the election. With the next election being in June, not October, it is important to plan ahead to ensure there is sufficient time for my office to issue our review of the pre-election report and for Ontarians to absorb both reports before the election. I urge the government to keep the calendar in mind as it prepares its pre-election report.

Our mandate is to comment on areas where there are opportunities for improvement in the delivery of government and broader public sector programs and services. This is important to keep in mind in reading our reports because it is equally important not to forget that there are many things that are working well. For example, to name only a few from our audits this year: Most cancer patients are generally receiving treatment in a timely manner; the Ontario Public Drug Programs have provided timely access for eligible recipients when their prescribed drugs are listed on the formulary; accurate and timely lab results are being delivered to health care professionals; crop protection insurance is helping most crop farmers manage production losses; school boards are using their restricted funds for purposes intended and have been increasing their use of group purchasing arrangements to acquire goods and services which should result in cost savings.

In closing, I want to thank, on behalf of my team, the many people in the public and broader public sectors involved in our work, for their assistance and cooperation in the completion of this year's audits. I want to extend my personal thanks to my team, the various experts who shared with us their knowledge and advice, and to the private sector accounting firms that provided us with assistance during the past year. Now I would be happy to take your questions.

Q: Ferguson: What does this say about the IESO that gas fired plants were passing on the cost of items like parkas, coveralls, landscaping, staff car washes? How does	So I think the thing to keep in mind is that the responsibility for oversight is split between the IESO and the Ontario Energy Board. They have the Ontario Energy Board panel has for many years issued reports signaling that there were

that get through? And at what point does as an auditor, either in the private of public sector, would you advise to call the police about things like that?	problems with the two programs that we highlighted in our report and so they did provide that information. The IESO staff have conducted investigations there but unfortunately program changes were not made based on fully based on the recommendations of the OEB board. So we would say that, you know, that we think that there should have been more due consideration for those reports by the OEB panel. As well, the panel wanted more information to support the justification of those reports from IESO because IESO did indicate they needed those programs for liability purposes. That technical assessment has not been done yet. In terms of the next step no it's not for me to comment on, you know, anything to do with a referral anywhere, that's up to IESO and the OEB to determine, you know, how their concerns best get addressed.
Q: Ferguson: But how does those coveralls, parkas, landscaping? How does a $300,000 landscaping bill get passed on to ratepayers? Someone is not paying attention, right?	So the program was such that costs could be, bill could be submitted but without any support for the bills and the bills were being paid. And it wasn't until more detailed, more requests were made for detailed information that they became aware that there were costs behind that bill that probably shouldn't be reimbursed under those programs.
Q: Carter: Overall, if I am correct, (inaudible) of overpayment?	Well there's two different programs right? So there's one that is called a Standby Costs Recovery Program which is supposed to provide money for the plant and people that would be providing peak power. That one is a reimbursement for gas, maintenance and operating. The OEB panel said that when they started including maintenance and operating costs, that that was too generous and that it should only be gas. But the IESO continued reimbursing for all those costs. The OEB panel said perhaps that program is not necessary because only one per cent of power is provided under that of those funds.
Q: Carter: 30?	Yes.
Q: Carter: Just so we are clear here. People in this province are paying $30 million more a year for power than they should be?	So based on the OEB panel's report, they indicate that they do not believe that there is support for maintenance and operating costs to be covered under such a program. And that equates to about $30 million. So yes.
Q: Carter: Would you be shaking your hydro bill in anger then because of that?	I guess I would hope that this is addressed and that the IESO revisits this program as is recommended by the OEB panel to do.
Q: Giovanetti: (Inaudible) fully audit the IESO?	Yeah. In our report we have a recommendation that we comment on the financial statements of IESO. So we have already made the board of IESO aware of our intent under the Electricity Act to conduct the test audit, financial statement audit, of IESO. We'll do it in one of three ways. Either we will do it as the sole external auditor of IESO. We will either do it in partnership with their existing audit firm, which is possible you can do joint audits. If they indicate to us that they don't like either of those, under our legislation

	and the IESO's and the Electricity Act, we will still be conducting an audit at IESO.
Q: Giovanetti: Is it unprecedented for your office to do?	It probably is unprecedented to suggest that we go in now and audit IESO financial statements. We haven't audited those financial statements as an office before. But the Electricity Act provides us that opportunity.
Q: Benzie: Bonnie you mentioned the next election. Are you concerned that you are not going to get that pre-election report. Because by my calendar, the election is June 7th. Traditionally you have ten weeks before so you would need that pre-election report by March 29th to be able to give you time to sign off on all the books. Are you concerned that you are not, have you received indications that you are not going that?	I think the thing is, the earlier the better because then there is an opportunity to issue the report without it being too close to an election, that there is an opportunity for people to digest the report. I do not want to be caught up in any discussion that, you know, why are you issuing a report so close to the election? But I think our concern is we don't know yet. We do not know what is planned. We have had some general meetings with the controller's office but we have not had a definitive indication of whether or not the pre-election report will be provided to us and when. So I think we need more concrete communication this.
Q: Benzie: Speaking of the election, you expressed concern again about the books not being balanced in your view, according to the accounting practices, they are using different methods that you dispute. Are you concerned that the Progressive Conservative platform that was released two weeks ago, it uses those same government assumptions, the same government accounting, the same practices. So they are projecting a $2.8 billion deficit in their first year. Does that mean that their $2.8 billion deficit would actually be considerably higher, it would be possibly $7 billion, something like that, depending on the accounting?	You know what, I have not read the platform. My only comment would be that I guess when you think about it, you kind of have to use the same numbers, so that you would have an apples-to-apples public comparison. That is the only comment that I would have on it.
Q: Benzie: If you say there is a deficit now and the government says there is not one, if there is a $2.8 billion projected deficit based on the government's numbers, it is going to be therefore higher, right?	Yeah I think we think the impact for 17-18 will be about $4.5 billion.
Q: Benzie: $7.3 billion - my calculations with about $7.3 billion based on your numbers.	Yeah I'm not sure the seven but I'll say that we estimate that it would be the additional costs to the bottom line might be about $4.5 billion. We have our estimates in Chapter 2 of our report.
Q: Artuso: Signing off on the books pre-election - are these disputes over accounting practices likely to figure into part of that report?	You know I think our position on the on the accounting for the rate reduction and the pension assets is pretty understood and that will be factored into our review on a pre-election report depending on how, you know, how the government chooses to reflect that in the report.

Q: Crawley: How concerned are you about the apparent increase in sick days being taken by teachers and other education workers?	Yeah we noticed. I mean we looked at the school boards and we also looked at a survey that the school boards had done of 50 school boards. So we looked at the ones, you know four specific ones in the 50 and we did identify there that, you know, they've identified too that there is an increase. I think it's concerning in the sense that money that perhaps is intended to be used for programming has to cover other financial pressures associated with sick leave such as substitute teachers. So we do highlight that in the report.
Q: Crawley: And just to follow up on it, the government's ostensible reason for wanting to end that banking of sick days was that it saves money. So do you analyze - like, are we better off financially that teachers and other education workers are not allowed to bank that sick time and then cash it out at retirement.	Well I don't think we looked at it as a trade-off. I mean I think when you hear the term sick leave and sick days you assume that people are sick and so, you know, we're commenting that school boards perhaps need to put in place some sick leave policies and a program to manage the sick leave so that they can minimize the cost to the overall school board budgets. So you know, someone you would think - I would think as a taxpayer that in order to book a sick leave I need to be sick. So I think with the increase that we're seeing, we're just saying school boards you need to monitor this to make sure that a sick leave program is in place that is followed that would stand our scrutiny of it.
Q: Boyle: Auditor, of all the health audits that you did, what stands out to you the most?	I guess I didn't know, or I think a few of us in the office didn't know, what a CHC was, a community health center was, before we actually went in and looked at the community health center's and they're pretty -- it's pretty neat actually, the concept, right. I mean you walk in and you've got your primary care physician, you've got, you know, maybe a physiotherapist, maybe a social worker, maybe you have somebody to help you with housing, a lawyer there to help you with paperwork if you have, you know, if you're a vulnerable -- a member of a vulnerable population and you need assistance. So I think that was probably the most surprising to understand that that type of operation existed in Ontario. And you know we sat back and we said well that's interesting, I mean, has it been studied in terms of the broader application. So one of the things we recommended in the report is that the information around those units and how they operate needs to be looked at by government to see how it fits into the provision of primary care in Ontario. The CHC accumulate your own information. There is no OHIP billing. So in terms of understanding what services they are giving to their patients they might know that, but the province doesn't know it right now because they're on a separate IT platform. So I think, you know to answer your question that was probably one of the more most interesting, I think, points, you know, that how they operate in Ontario.
Q: Boyle: And cancer drugs outside of hospital, you're recommending that the province pay for those? And if so, how much would that cost?	I'm not recommending that they pay for it, more looking at it from the perspective of an equity in the sense that if the concept is to reduce costs of people going into the hospitals or getting treated in the hospitals, if you if you have to take a cancer drug you have to go into the hospital and get it done.

	It's covered, it's free. Right. But if you have to take a cancer drug and it's in a form that you can take at home you have to pay for it yourself. So, we just pointed that out that perhaps that's just something that can be looked at, you know, what's the trade-off in having people have to go and have it done in a hospital versus is it cheaper to support the cost of the drugs in somebody's -- you know, taking the drugs in their homes. So that's how we've looked at it versus saying, you know, there should be coverage of it.
Q: Reynolds: Auditor, with the emergency preparedness, I understand that there's ineffective oversight structures and there's a low priority status for the emergency management office, but how does that actually – to what extent does that actually put Ontario residents at risk?	So it was interesting looking at this because, I mean, it's one of those programs where I think you have to make a decision, you know, I mean there's a lot of programs that need money and you see the results of that money right away. And then there's something like emergency management until you need it you don't see the results of that. So we do comment in the report that over the last number of years there's been less attention given to that function. You know, a committee of cabinet hasn't met on it for many years. But we're not saying that if something happened in Ontario -- there'd be a response, there for sure would be a response, but we're commenting that perhaps the response could be more effective if there was more time spent on the planning -- planning before something happens. So for sure we're saying that you know there would be a response is it -- would it be the most cost effective, most efficient response. That's where we're saying we think more attention needs to be put on emergency management planning simulations, communication between the province and municipalities. That type of thing.
Q: Reynolds: Are Ontarians at risk though?	I wouldn't phrase it that way. I would say that this is -- this is a type of program that you make a choice as to the extent to which you invest in it for the future. So like I said, can there be a response if there is a forest fire? There'll be a response. Will it be the most effective? You know, a good one is the nuclear planning, that one is a plan for evacuation around a nuclear plant, you know, so until more time is spent doing maybe a simulation -- and I believe something is happening today around that, you don't know how responsive you're going to be. So -- but I wouldn't phrase it, I wouldn't phrase it the way you've phrased it.
Q. Artuso: You mentioned transparency as a priority. Should these [Inaudible] be recorded? I think they used to record what they call "Covariance Reports," what they are what they got the money for what they actually spent the money on. In this case, should you look at a province like Ontario, which has so many new immigrants coming in. ESL money is being diverted and at-risk money for kids is being diverted to other fiscal pressures on the school-boards. Should there be more clarity around what	So, there are funds that are restricted funds and in the audit we found that school boards are abiding by that. So, when they know something is restricted, they're definitely following the rules and they're using the money appropriately. Where we highlighted in the report, our questions were around more the funds that are designated for something. So I think we use the example of students that are not high achievers-low achievers. And the province said one of our priorities is to have those people become higher achievers. But when we looked at the money, it wasn't being spent for that, it was being spent for other purposes. And the reason being- it's not school board's fault, the province says we're going to

schoolboards spend their money on, and a comparison between what money was meant for and what it was actually spent on?	give you this money and you can do whatever you want with it, even though we have this provincial priority. We're just saying that if you designate money as a provincial priority, it kind of makes sense to taxpayers that we would assume you're following up to make sure that priority is going to be achieved somehow or what's the progress toward achieving that priority. So, that's more our issue, because it's not whether or not the school board spent the money right or wrong. They have the discretion. But it's the province designating it for something and labeling it that and then not following up that it's spent, that is our issue.
Q: Smith Cross: Can you elaborate on the 900 applicants on social housing waitlists that have homes?	Yeah, in our report we have a table and when we were looking at social housing, there were about 900 people on the waiting list that had self-declared that they owned properties. So, I think one of our points in that report is that eligibility criteria for social housing really is kind of locked into the income. Are you bringing in income, versus looking at other criteria when that assessment is being made. We also highlight if somebody said they can still stay on the list. If they own assets no matter what level of assets, as long as it's not generating income for them, they can stay on the list. They can say no to properties and stay on the list. Our point and all of that is that other provinces seem to have more criteria that they use to determine who should be on the list and it's more based on need. So somebody that's homeless, should they have more priority versus somebody died even though 40% of your income is going toward their rent, just because you're "first come first serve" on that list, should you be getting that house? They do have an exception though for situations with violence, housing those people gets priority.
Q: Smith Cross: [Inaudible] who own a home getting social housing when they get to the top of the list?	Our understanding is that that's the case. Having said that, the focus of our work was looking at who was on the waiting list.
Q: Tumelty: The strategy for sexual abuse was [inaudible] there's just under 190,000 people on the waiting list. There's [Inaudible] there is the real-estate, they have just under 190,000 homes. But the province has [Inaudible].	There is a requirement for about 187, 000 social housing properties to be available for households. And when we looked at it, we recognize that they are about 20,000 short in providing that and meeting that requirement. That's really the only requirement in Ontario or Canada for social housing. Really, there isn't a requirement for anybody to provide social housing -that is the only requirement, the firm requirement. So we did comment, some of the properties are just they were in poor condition. We had some people that perhaps don't require social housing that are still occupying those units. So they're not really social housing units per se. Some have converted from social housing I believe to market rate.
Q: Crawley: What's the impact of all these hundreds of government buildings sitting empty?	They do have a plan, Infrastructure Ontario has a plan to dispose of properties. It's just not, they are not disposing maybe as fast as one might expect. I think they only had a handful – just 19 properties I think were sold. So what we're

	saying is you're paying a few million dollars maintaining these vacant properties. Maybe it would be good to speed up the disposal of them.
Q: Crawley: Couldn't they be repurposed for other needs? We were just talking about the lack of social housing and the government has talked a lot about property, wanting to benefit that people are trying to find properties. Would you have some ideas of what should be what should be done with these government buildings?	I mean, they're like old OPP detachment offices, correctional facilities. So I mean, is there a potential re-purposing? I think that's a good question for maybe Infrastructure Ontario. I don't want to - I'm not sure. I'm not sure of the re-purposing, so I don't want to take you down a path there but I think these are designated properties for disposal. So our point was just, you know, maybe it's good to do something with them rather than continue to pay, I think it's $19 million a year, goes toward maintaining these vacant properties.
Q: Crawley: Many, many millions more worth of real estate, were you able to count (inaudible)?	We don't have an estimate. They're all book value. So we don't have an estimate of the value of all of that property now. But again, that's probably a good question for Infrastructure Ontario.
Q: Ferguson: Getting back to the car washes and the (inaudible) traps and the carpet cleaning at the power plants. How much money was spent on - was billed on things like car washes?	So in the report, we indicate that there was about, the ISO - excuse me - through the investigation, they identified about $260 million in billings that they would say were for ineligible costs. About 168 of the million of that were recovered. And part of the rest, there wasn't a material or invoices provided. And so, there was a settlement. Right. So, you know, how much of that remaining? I don't - I can't comment.
Q. Ferguson: For car washes, like dirt, does any of your (inaudible)?	No, we didn't tabulate that. I think the ISO team, I think, did a lot of work there in coming up to the $260 million but I don't know the breakdown. I think we cited some examples because it was kind of foreign to us when we looked at this because, you know, these are supposed to be costs for gas, costs for maintaining a plant and costs for operating a plant. So, obviously, you know, we were concerned when we saw what they had identified themselves as issues. I think the point here is the OEB panel did their job. They did their job in identifying issues. I think where there needs to be a little bit more accountability is that the ISO level for making changes or for looking and providing reasons for why changes weren't being made to back to the panel to explain why their recommendations weren't implemented more fully.
Q. Crawley: Do you have any sense of why it is that they did not recommend the (inaudible)?	Well, I think, like what we say in the report and what we were told is that, you know, there are reliability concerns and that, you know, these programs are operating for reliability purposes and that's where the OEB comes in and says no, well give us your technical reports as to why you think those two programs are needed for reliability of the system. I mean, one deals with congestion on the lines and the other one deals with people, the gas plants being available to provide peaking power. But when you're in a surplus situation again, you know, you kind of revisit that program and the other one and congestion. You know, I think you revisit that one too when times change. Those programs have been around since 2002, 2003. So, time to revisit.

Q. Crawley: The IESO have too close relationship with the private companies that are making money off of this and providing the power. Is there two...	The only thing I would say there is that when we looked at the market initiative that, you know how there is now an initiative to redesign the market. Right? And we have concerns that there might not be sufficient representation from, you know, a residential rate pair or a small business rate pair on not that. And that people that were members - working for companies that either have been investigated or under investigated and found to have been playing the market. Those companies still continue to be in that group that's redesigning the market. So we do have that in the report. We said that is a concern. I did find out today that as of December 1st, I think Goreway was removed but, you know, that and I think the technical panel that provides advice to ISO, also has people involved - organizations. This is not a people thing, this is an organization discussion because over time players change, right. So even though the person on December 1st was from Goreway, chances are they weren't the person that was involved in some of the problems that they had there. So the technical panel also has membership that we would question. All right, thank you very much.
N.B.: Comments captured are not verbatim quotes	

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Fedeli Focus on Finance

Year-End in Focus

Volume 4: No. 12 | December, 2017

Happy New Year! As we settle into the start of 2018, this edition catches you up on what happened in December with respect to Ontario's finances. The earlier December Special Edition of *Focus* covered what the Auditor General had to say. This regular issue will fill in what happened throughout the rest of the month.

The FAO Weighs-in

Of major significance was the release of the Financial Accountability Office's (FAO) *Economic and Fiscal Outlook: Assessing Ontario's Medium-term Prospects*. The very first sentence should give you all the information you need … "FAO projects a return to significant budget deficits." It goes on to explain that despite a strong boost to revenues this year (much is one-time revenue), "the FAO is projecting a budget deficit of $4 billion in 2017-18." This is the result of the Auditor General's (AG) recommended accounting treatment for both the government's so-called Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.

Beyond this year, the FAO is projecting a "significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing impact from the Fair Hydro Plan." By 2021-22, the FAO is projecting a budget deficit of $9.8 billion. The report reveals "This is a significant deterioration since the FAO's spring outlook and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment."

The FAO, both in the report and in the briefing lock-up, expressed concern about having all these various forks in the road, leading to several versions of deficit numbers. The report concludes "It is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

The FAO stated that "additional measures to raise revenue or lower spending will be required if the province intends to achieve and maintain a balanced budget." However, there are major differences between the FAO's forecasts and the government's, both on the revenue and expense side. According to the government, between 2017-18 to 2019-20, revenues will grow by 5.2% on average, much higher than the FAO's projection of 4.3%. This results in a difference of $2.9 billion in tax revenue. In addition, many of the one-time revenues will expire, including federal equalization payments (gone by 2019-20), debt retirement charge, federal infrastructure transfers, carbon allowance proceeds (there were five auctions vs four as in most years), and sales of assets, such as Hydro One and various real estate. On the expense side, the government will spend $9.7 billion more than what they had planned to spend in 2017-18, according to their own fiscal plan of just two years ago.

As for the key risks in the outlook, the FAO, as well as most forecasters, continues to assume that uncertainty over NAFTA will have a detrimental effect. Some businesses are postponing investment decisions until this is resolved. The FAO is also concerned that "strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt." With rates expected to rise, "many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth." In the FAO's spring report, it outlined the housing market as a significant threat to the economy, with record consumer debt loads and stretched level of affordability.

Further Analysis

This all ties in with what many associations and financial groups published in December. RBC Economics stated "After several years of consumer spending and housing activity acting as the main engines of growth, changes

to regulations in the housing market and rising interest rates are setting up for a moderation in housing resales and ancillary purchases." With respect to overall growth, RBC further commented that "economic slack has diminished considerably following long periods of expansion, making it harder to repeat 2017's rapid growth rates."

Central 1's economic analysis sees slower growth in the near term, largely from personal consumption and residential spending, with a small drag from a shrinking trade balance. They also list the minimum wage impact and NAFTA uncertainties as sources of risk for the province's economy. Central 1 also reported that small business optimism in Ontario decreased since November, to 57.5/100 (down 0.8%). Since June, year-over-year small business confidence tracked lower than the same period last year. December's year-over-year negative gap was the widest of 2017.

Many organizations chimed in on the minimum wage issue. The Bank of Canada announced that Ontario's move to $15 per hour will cost the province 60,000 jobs. This is bracketed by the Financial Accountability Office's estimate of 50,000 lost jobs, and TD Bank's assessment pegging it at 90,000 jobs to be lost. The CFIB suggested this change will cost Ontario between 68,100-155,900, when both direct and indirect job losses are considered. Undoubtedly this debate will continue, but all eyes will be on the monthly labour statistics, for some monthsto come.

In a series of blistering reports, the Fraser Institute painted a bleak picture of Ontario. The titles are very revealing. Uneven Recovery: Much of Ontario still hasn't fully recovered from the 2008 recession; Canada's job engines are in the West and Quebec – not Ontario; Ontario's manufacturing sector falling behind other provinces, U.S. states; and Rising electricity costs and declining employment in Ontario's manufacturing sector.

Fraser claims that most of the province's job creation took place in its largest urban areas. Toronto and Ottawa alone created the equivalent of 98.6% of all new jobs in Ontario between 2008 and 2016. Basically, throughout the rest of Ontario, there has been virtually no job creation since 2008. I can attest that my hometown of North Bay is one of the 17 urban areas that are under the national average, and one of the 11 urban areas that actually experienced net job losses (around 9%) since 2008.

While Ontario is not alone in having a reduced manufacturing sector, it exhibits the most substantial decline when compared to other jurisdictions in Canada and the U.S. Fraser compared the manufacturing sector's share of real GDP between 2005 and 2016. Ontario's share dropped 5.1% compared to the U.S. falling less than 1%. In fact, several jurisdictions in the U.S. northeast (our main competitors) saw increases, including Indiana at 1.5%, and Michigan and Kentucky by almost 1%. Another indicator of decline is Ontario's relative ability to attract investment. Between 2006 and 2016, manufacturing investment declined by 26%, while it increased in Saskatchewan by 35%, B.C. by 15%, Quebec by 11%, and Manitobaby 5%.

The various reports conclude "Ontario is faring so poorly relative to other jurisdictions that all face the same challenges. Simply put, poor policy, including policies that have dramatically increased electricity costs, which have likely placed too large a financial burden on manufacturing and hampered the sector's competitiveness."

Hydro Still Making News

Ontario's skyrocketing hydro rates just can't seem to shake the news cycle. After the Auditor General revealed that $260 million was paid out in ineligible expenses claimed by power plants, opposition parties have called for a deeper review, including asking the OPP to investigate. It was further revealed that Ontario Power Generation is one of the companies that still owes ratepayers for inappropriate expenses.

New government rules forced local utilities to promote the government's programs. An Order in Council mandated that utilities must print 'Ontario's Fair Hydro Plan' and 'Bringing electricity bills down' in a "reasonably prominent location on the face of the bill insert." The so-called Fair Hydro Plan is the name the government gave to their financing scheme to temporarily (and the AG states artificially) lower hydro bills by an average of 25%. The Niagara-on-the-Lake Hydro Board issued a statement accusing the government of politicizing electricity bills.

Hydro customer debt and disconnections soared, according to new numbers quietly posted by the Ontario Energy Board. During the past four years, there's been a 19% increase in residential hydro disconnections, a 28% increase in households in arrears, and a 40% increase in customer debt owed to the local electricity distributors. North Bay Hydro wrote off more than $1.12 million in past-due bills for 2,930 customer accounts. This was 40 times greater than the $25,573 written off the previous year, for 145 accounts.

A CBC News story detailing how market-based bidding has pushed down the price of renewable electricity in places such as Mexico, got others doing comparisons with Ontario's costs. The story described 'the cheapest electricity on the planet' in Mexico, at 1.7 cents/kwh for wind power. Over the last year the rate paid to wind generators in Ontario was 14 cents/kwh. As a result, Ontario families and industries are struggling to pay amongst the highest electricity rates in North America, with rates increasing by 71% since 2008.

Conclusion

Ontario families, businesses, Legislators, and rating agencies, need to trust the government's fiscal projections. But as the FAO stated, there is reduced transparency and reliability of Ontario's fiscal plans. This needs to end. We should have one set of books in Ontario – and a government that will work to ensure the government's books are properly reported.

Key Questions

Will the government accept the fiscal assessment of the Financial Accountability Officer and publish realistic numbers in their 2018 budget?

Will the government acknowledge that much of Ontario hasn't recovered from the recession and propose turn-around solutions for our economy?

Will the government address the core causes of skyrocketing hydro rates and stop buying costly power we don't need?

Similar stories of waste, mismanagement, and scandal are disclosed in my new book, *Focus on Finance 4*.

Please go to www.fedeli.com to download your own copy of the book.

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A.pdf

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
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Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
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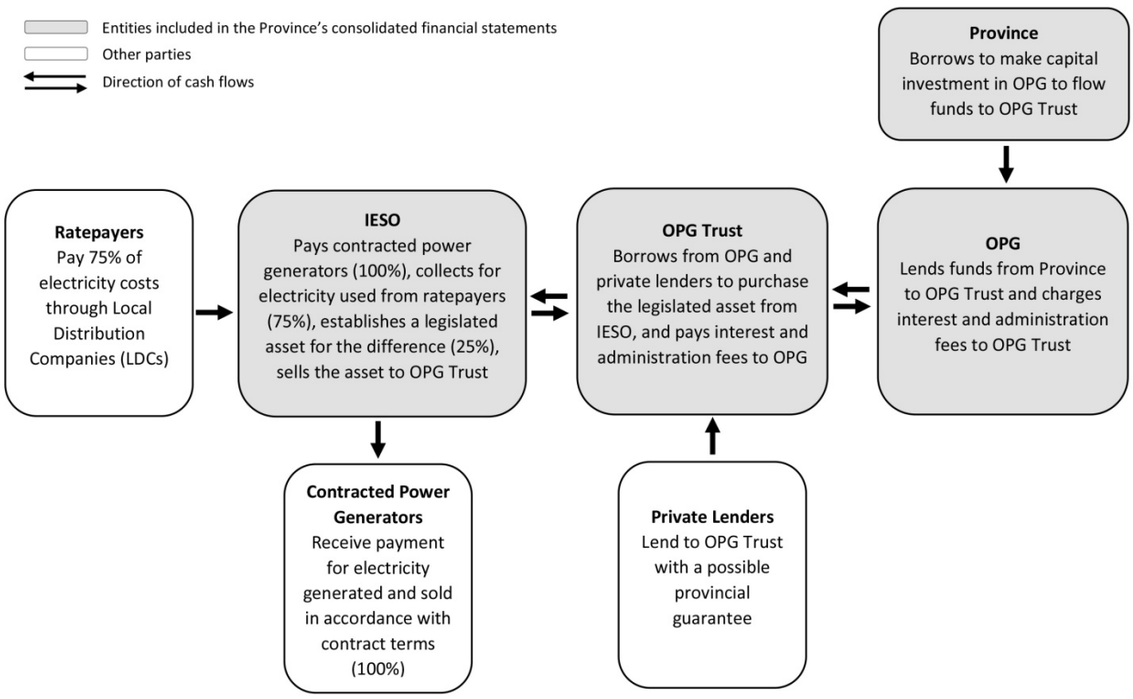
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

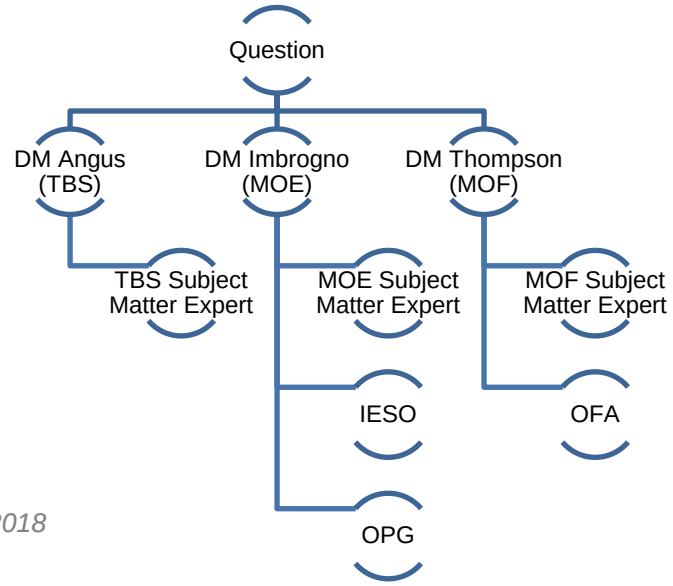
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

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Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.

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- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.
- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment and advice to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.
- We're committed to proactively working with the Office of the Auditor General.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.
- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.
- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan.**

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IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

Pre-Election Report

- And finally, speaking to the Pre-Election Report –

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- On February 26, 2018, the government posted a regulation under the *Fiscal Transparency and Accountability Act, 2004,* that requires the government to issue a pre-election report on Ontario's finances.
- The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.
- The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:
    - The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
    - An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
    - Details of the reserve; and
    - Information about the ratio of provincial debt to Ontario's gross domestic product.
- The government intends to release the pre-election report concurrently with the 2018 Budget.
- Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.
- Either Deputy Thompson or I would be pleased to answer questions regarding the report.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.

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- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.
- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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Last updated: February 27, 2018
Includes review by Treasury Board Secretariat, Ministry of Energy and Ministry of Finance.

ROLE OF THE SECRETARY OF THE CABINET

Topic	**Government Decision-Making/Advice Provided/Personal Opinion**
Key Messages	• As the head of the Ontario Public Service, it is my role to provide my best advice to the Premier to help deliver on the government's mandate. • To this end, I rely on the expertise of the province's professional staff to ensure appropriate due diligence in providing objective advice to support government decision-making. • I would add the point here that this professional advice takes a number of forms – legal, accounting, etc. • Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table. • If the public service has provided its objective advice based on this due diligence, and if the decisions made are constitutional, and the effects of the policy are accounted for transparently, then we have fulfilled our role as public servants. • As you can appreciate, as the Secretary of the Cabinet, it is not my role to provide advice based on my opinions – it is my role to provide my advice based on objective evaluation of the policy options. • I, and my colleagues in the Ontario Public Service, will continue to ensure our due diligence to support decision-making for this policy decision and any others.
Handover	• For more information on the processes surrounding specific policy decisions, I will pass it over to: o Deputy Angus

Topic	**Relationship with the Office of the Auditor General**
Key Messages	• I speak for myself and my colleagues when I say that the public service has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring. • Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General. • I know, for example, that the Internal Audit Division works closely with the Office of the Auditor General to ensure that stakeholders are engaged in discussions regarding risks and resolution. • As public servants, we will continue to ensure appropriate due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.
Handover	• For further details on recent collaborations with the Office of the Auditor General on the topic of the preparation of Public Accounts, I will pass it over to: o Deputy Angus

PENSION ASSET ACCOUNTING

Topic	**Pension Asset Accounting**
Key Messages	• The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards. • The government sought advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel in addition to getting advice from external consultants, as well as completing additional research and analysis conducted internally. • The determination to include pension assets in the Public Accounts is based on the evidence available that the accounting that had been followed since 2001 was, and continues to be, in accordance with accounting standards for government. We have been open and transparent about how that decision was made. • The responsibility of our professional accounting staff requires them to act in accordance with their professional code of conduct by ensuring the Public Accounts present a fair and objective representation of the government's fiscal position. • The province is open to continue to discuss the matter with the Office of the Auditor General in the hopes of resolving this matter.
Handover	• For further information regarding pension asset accounting, I will pass it over to: o Deputy Angus

IESO ACCOUNTING

Topic	**IESO Accounting Changes – Market Accounts**
Key Messages	• The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. • In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. • The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. • The government supports this enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. • The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. • The province is open to continue to discuss the issue in the hopes of resolving this matter.

Handover	• For further details on IESO's decision to adopt market accounts, I will pass it over to:
	  o Deputy Imbrogno
	• For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
	  o Deputy Angus

Topic	**IESO Accounting Changes – Rate-Regulated Accounting**
Key Messages	• The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards, and is regulated by the Ontario Energy Board under the Electricity Act. • The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its internal reporting policies. • Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses that are recovered through rate regulation over time. • This change brings IESO's reporting in line with the accounting practices followed by other independent system operators in North America. • The change also provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect these amounts in the future. • The province is open to continue to discuss the issue in the hopes of resolving this matter.

Handover	• For further details on IESO's decision to adopt rate-regulated accounting, I will pass it over to:
	  o Deputy Imbrogno
	• For further details on the province's decision to accept IESO rate-regulated accounting on the province's consolidated financial statements, I will pass it over to:
	  o Deputy Angus

ONTARIO FAIR HYDRO PLAN

Topic	**Ontario's Fair Hydro Plan (OFHP) Decision-Making**
Key Messages	• As public servants, it is our role to provide our best, objective advice to support government decision-making. • For this policy matter, like any other, our professional staff ensured the proper due diligence was completed in providing their advice. • In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure this due diligence was completed. • External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and their engagement is in the normal course of business. • The proposed accounting for Ontario's Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. • The province's professional staff will continue to complete the proper due diligence and provide their best objective advice on complex transactions. • The province has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with Public Sector Accounting Standards.
Handover	• For further details on that due diligence, including the consideration of a range of implementation options and consultations with legal, accounting, financial and energy sector third-party experts, I will pass it over to: o Deputy Imbrogno

PRE-ELECTION REPORT

Topic	**Pre-Election Report**
Key Messages	• On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances. • The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election. • The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan: o The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions; o An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses; o Details of the reserve; and o Information about the ratio of provincial debt to Ontario's gross domestic product. • The government intends to release the pre-election report concurrently with the 2018 Budget. • Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.
Handover	• For further details on the Pre-Election Report, and how the province has been working with the Office of the Auditor General, I will pass it over to: o Deputy Angus; and, o Deputy Thompson

Last updated: February 27, 2018
Includes review by Treasury Board Secretariat, Ministry of Energy and Ministry of Finance.

PROVINCE'S FISCAL SITUATION

Topic	**Debt**
Key Messages	• The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. • The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. • These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
Handover	• For further details, I will pass it over to: o Deputy Thompson

PREPARATION OF PUBLIC ACCOUNTS

Topic	**Future/Adverse Audit Opinions**
Key Messages	• It would be inappropriate for me to speculate on the type of opinion the Auditor General may issue for the next Public Accounts. • What I can say is that the province has a strong track record of producing high-quality financial reports on a timely basis. • We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards and ensure due diligence through our internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and by always bringing our best, objective professional judgment to the table. • We will continue to work constructively with the Office of the Auditor General and, at the appropriate times, keep all independent officers of the legislature informed.

Handover	• If you would like further details on the preparation of Public Accounts and the province's work with the Office of the Auditor General, I would be happy to pass it over to:
	  o Deputy Angus
	• If you would like further details on the province's fiscal management, I would be pleased to pass it over to:
	  o Deputy Thompson

Topic	**External Advisors**
Key Messages	• We will continue to ensure appropriate due diligence is completed in all objective advice that we provide to support government decision-making. • This includes completing our own internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table. This is particularly important for complex or emerging matters. • Our professional staff will continue to take a proactive approach to raising items with the Office of the Auditor General. • We remain committed to working with the Office of the Auditor General to discuss items as they arise.
Handover	• For further details on how we use external expertise to support our own internal analysis, I will pass it over to: o Deputy Angus

Topic	**Timeline of Finalization of Financial Statements**
Key Messages	• The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts. • The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. • Planning discussions for the 2017-18 Public Accounts have already begun between the Office of the Provincial Controller and the Office of the Auditor General. • As well, the Office of Economic Policy in the Ministry of Finance has been engaged in discussions with the Office of the Provincial Controller on risk considerations related to economic models used to estimate personal and corporate tax revenues in an effort to bring forward the delivery of the Public Accounts. • We remain committed to working constructively with the Office of the Auditor General.
Handover	• For further details, I will pass it over to: o Deputy Angus

OTHER TOPICS

Topic	**Records Disclosure**
Key Messages	• As public servants, it is our role to provide our best advice and conduct our due diligence to inform government decision-making. • Part of this process includes information gathering, questioning and deliberating. • The specific record you are referring to is likely part of that discussion process, where we as public servants engage in deliberations and explore the options to formulate our best advice. • It is important to keep in mind that an individual email, or trail of emails, represents a point in time discussion. • Statements contained within them are not necessarily representative of the final advice put forward or an endorsement of what the public service has identified as the best approach. • The records must be considered in the context of broader discussion and deliberation, as an exercise in due diligence, and not necessarily as a final endorsement of any particular option or approach. • As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
Handover	• For further details, I will pass it over to: o Deputy Angus

Topic	Out of Scope
Key Messages	• Thank you for your question. • I'm not sure that I can speak to the specifics of your question, but would be happy to pass it over to my colleague, Deputy ____, who may know more. • If we don't have the information with us today, we will make every effort to get the Committee as much information as we can.
Handover	• For further details, I will pass it over to: o Deputy Angus o Deputy Imbrogno o Deputy Thompson

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Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public

Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the “Accounts Under $50,000” category.

As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.

Optional key messages:

- IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, IESO has also requested that its external auditor fully cooperate with the audit being completed by the Auditor General.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
Optional response for TBS (IESO can speak further to their accounting.)

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
Optional response for TBS (IESO can speak further to their accounting.)

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

For more information on the province's credit rating, I will pass it over to my colleague at the Ministry of Finance, Deputy Thompson.

AG Audit of 2017 IESO Financial Statements

Key Messages

Optional key messages:

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?**

   The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), not in accordance with legislated accounting.

   (Issue of "legislated accounting" is addressed in next subsection.)

   The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

2. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

3. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

4. **The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?**

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
(OPCD: "A note is being finalized and will be shared; the note was pending documents being finalized with respect to the OPG Trust and financing details [completed in early 2018]").

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

5. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe the government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

6. **The Auditor General says that the government is "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?**

   In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

   OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

7. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance**

55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

8. **The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

9. The Auditor General says that even government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

10. Why didn't you engage the Auditor General earlier regarding the accounting issues with Ontario's Fair Hydro Plan?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

For this issue, like any other, the province's professional staff exercises judgment in applying the standards and as necessary, consult with external experts and advisors.

The province's professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General. The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issues.

For further questions on OFHP, I will pass it over to my colleagues at the Ministry of Energy.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.
- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Isn't the government just changing the rules to suit its needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?**

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

   I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.

That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. **The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?**

   As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   We will look into this question, and make every effort to get the Committee as much information as we can.

4. **Why are you charging excessive fees and extending timelines? Aren't you delaying access to important information and not being open and transparent?**

   Consistent with other Canadian jurisdictions, Ontario's Freedom of Information legislation operates on a user-pay principle. Processing fees are required to be paid when requesting government records.

   Ontario's current fees are in line with other Canadian jurisdictions.

   The Information and Privacy Commissioner has supported the user-pay principle as it may help eliminate questionable uses of the act.

   Treasury Board Secretariat (TBS) has an extended compliance rate of 94 per cent for freedom of information (FOI) requests in 2017. (Extended compliance is

the percentage of all completed requests where the ministry issued a decision within the allowable timeline.)

TBS continues to uphold the principles of openness and transparency when considering requests for information and making more government information publicly available.

5. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances.
- The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.
- The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:
    - The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
    - An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
    - Details of the reserve; and
    - Information about the ratio of provincial debt to Ontario's gross domestic product.
- The government intends to release the pre-election report concurrently with the 2018 Budget.
- Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. When will the pre-election report be released?

On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances within 7 days of the Minister of Finance moving the Budget motion.

However, the government intends to release the pre-election report concurrently with the 2018 Budget. Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.

2. What will be included in the pre-election report?

The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.

The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:

- The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
- An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
- Details of the reserve; and
- Information about the ratio of provincial debt to Ontario's gross domestic product.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why did the government wait so long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have been proactively working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report.

On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances.

The government intends to release the pre-election report concurrently with the 2018 Budget. Both the 2018 Budget and pre-election report will be available to the Auditor for review in the coming weeks.

The province continues to engage all officers of the legislature to engage constructively to ensure the people of Ontario are provided with an

independent review of the Province's fiscal position in advance of the election.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we

acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Presenting the province's share of jointly-sponsored pension plans in the consolidated financial statements is an accurate depiction of the net debt position. The Pension Asset Expert Advisory Panel confirmed the province's accounting is in accordance with PSAS, and the government accepted the recommendations of the Panel.

Similarly, the province's staff, along with the IESO and OPG, and have done their research, in conjunction with their external advisors, to confirm that the application of rate-regulated accounting is appropriate for application under the GAAP hierarchy. PSAS is silent on the application of rate-regulated accounting for regulated entities which follow PSAS. In such circumstances, preparers of financial statements are instructed to use professional judgment in assessing the application of other accounting frameworks that are consistent with the concepts within PSAS. In so doing, the statements will correctly reflect that the refinancing of the generating assets are due for collection from ratepayers in the future.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

For more information on the province's credit rating, I will pass it over to my colleague at the Ministry of Finance, Deputy Thompson.

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   I would add that professional external advice takes a number of forms, including accounting, legal, etc., and may come from advisors who often have experience on how similar issues have been resolved in comparable jurisdictions.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

There are no plans to establish a panel at this time.

If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and

Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?

As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of

the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and was in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

Relationship with the Auditor General

4. What is your relationship with the Auditor General?

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**

   To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

   For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective

sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

Other

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

Treasury Board Secretariat plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:

- Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
- Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
- Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
- Supporting the development of financial management and controllership capacity across the OPS; and,
- Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

The province provides guidance to consolidated entities on the accounting frameworks it applies. For example, Office of the Provincial Controller Division (OPCD) established a requirement for other government organizations to adopt

Public Sector Accounting Standards (PSAS) for their reporting framework with the introduction of International Financial Reporting Standards (IFRS) in 2011, while Government Business Enterprises were directed to IFRS.

Generally speaking, the province does not direct how the standards are applied. In one case, the province did provide direction to the school board sector to clarify an interpretation on a particular PSAS standard to ensure consistency across the sector. But more broadly, the province does not direct accounting policies to its consolidated entities.

Where policies are not consistent with those of the province, there is an adjustment that is made to align those results with the province. An example of that would be with respect to accounting standards that may be applicable for other government organizations, but not for the province. A new standard relating to financial instruments would be an example of that.

Consolidated organizations have adopted those standards, but that standard is not applicable until 2019, as currently planned by PSAB, for senior governments. In those cases, the province wouldn't direct government organizations not to report financial instruments, but would make those adjustments when those organizations to report to align those differences in reporting.

Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith demanded that the government add Hydro One employees back onto the list. Will you do this?**

Only public sector employees are included on the Sunshine List.

As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

- Disclosure of board-approved annual financial statements along with quarterly updates;
- CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
- Shareholders' meetings requirements and rules;
- Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,

- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to

balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the

digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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SCOPA QAs_MOF_20180122 v6.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets.
- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

Strategic investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

A.pdf

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B.pdf

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180223.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the public service.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Provincial Controller Cindy Veinot in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the Province's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Provincial Controller Veinot who can provide you with more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the Province has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Financial Statement Discussion and Analysis section, FSD&A as we call it, that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the Province to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results provide a relevant comparison across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Public Accounts also include the consolidated financial statements.
- The financial statements present the assets, liabilities, revenue and expenses of all the organizations within the government reporting entity.
- The government reporting entity includes all of the activities of the consolidated revenue fund as well as all the organizations that are controlled by the Province.
- These organizations included provincial agencies like Metrolinx and cancer Care Ontario, hospitals, school boards and colleges.

- Also included are government businesses enterprises, including the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, Hydro One and Ontario Power Generation.
- The financial statements present the revenue sources for the province such as taxes, federal transfers and other non-tax revenues, income from government business enterprises and other revenue from hospitals, colleges and school board.
- Finally, they include all the expenses of the Province.
- The consolidated statements show the actual Provincial income and spending for the fiscal year, compared to what was planned in the budget for that year.
- This is a quick way to see if the planned spending activities planned in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's financial statements so anyone can see at a glance if revenue or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of provincial organizations, government business enterprises and other financial statements that are consolidated into the Public Accounts.

- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.
- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the Province to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to transfer payment recipients in excess of $50,000 per year are included here as well, including payments to hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across provincial ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other Provincial entities to provide their financial statements to us.
- To that end, we work closely with ministries to ensure information is shared as quickly as it is available.
- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.
- TBS also works with other ministries through the Internal Audit Division that leads, among other things, an audit of all financial IT systems.
- This audit overviews financial systems like the Integrated Financial Information System, or IFIS, and the Workforce Information Network, or WIN.
- Reviewing these systems is a critical part of the Public Accounts process as they make up a major part of the Certificate of Assurance process that ensures financial data that TBS gathers is accurate.
- Timely completion of this audit is crucial to the timely release of the Public Accounts, so TBS works closely with ministry partners to complete this process.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General presents an audit opinion on the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.

- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the Province was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.
- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

What Guides Public Accounts Accounting Decisions?

- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the Treasury Board Secretariat formulates its position on accounting methods.
- Our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.

- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the principles that all provinces in Canada follow in their accounting and reporting practices.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about reporting transactions for public sector entities.
- But because accounting can be complex and new transactions can emerge, the standards do not always provide explicit guidance on how to account for specific transactions.
- It is sometimes necessary to look to other accounting standards and frameworks to support the preparation of the Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.
- To quote directly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*
- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*

[1] Public Sector Accounting Standards Handbook, PS1150.07

- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- TBS also considers positions taken on accounting issues by other senior governments in Canada.
- We are in regular contact with the provincial controllers and staff from other provinces and the federal government.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.
- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.
- Taking into account the expertise and advice we have access to, we make a decision on how the Province should present its financial statements that is in accordance with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

2. Long-Form Member Question_Open Government and Public Accounts_20180222.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the Treasury Board Secretariat making sure that the Public Accounts are open and accessible to everyone in Ontario?

Last Updated: Feb. 22, 2018
Reviewed by: Bryant Sullivan, Open Government Office, OPCD, OTB, Sofie DiMuzio.

ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing provincial information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.
- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.

- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the public service turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

  Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to provincial data by proactively sharing provincial datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all provincial data open by default, and the International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the public service to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the Province's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure provincial spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.
- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a “just the essentials” look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the “just the essentials” Public Accounts page, they can find highlights of the province’s spending and a simple breakdown of the province’s revenue.
- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the Province releases the Public Accounts each year, the value of this report to Ontarians, and how the Public Accounts tie into the Open Government initiative.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader’s guide to the Public Accounts.

- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.
- These tables are found on the Ontario.ca Public Accounts page dedicated to Volume Two of the Public Accounts.
- The data is divided into three tables, sorted by provincial organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular entity could type the organization's name into the search bar and have the results show up right away.

- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all provincial spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of provincial spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how provincial spending fits together to make up the entire amount that the Province spends each year.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.
- The Treasury Board Secretariat codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- TBS also ensures that all documents that are available for download are fully accessible.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.

- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the Province compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

3. Long-Form Member Question_Engagement Between TBS and OAGO_20180223.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

Last Updated: Feb. 21, 2018
Reviewed by: Bryant Sullivan, OPCD, OTB, Sofie DiMuzio.

ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the Province is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the Province and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

How OPCD Works with OAGO Generally

- For example, one of the things that enables the Auditor General to have confidence in the results that are presented in the Public Accounts is the robust financial controls that are in place across the public service.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, signed by deputy ministers from every ministry, each ministry's Chief Administrative Officer and each Director of Finance.
- The Certificate of Assurance attestations is used to support the Treasury Board Secretariat's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the Province is operating transparently when preparing its finances, including the Public Accounts.

- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration is an annual audit process undertaken by the Corporate Financial Assurance Audit team of the Treasury Board Secretariat.
- This audit evaluates the reliability of key controls over two key financial systems: the Integrated Financial Information System, known as IFIS, and the Workforce Information Network, known as WIN.
- The audit forms a part of the Certificate of Assurance attestation that I just described and is also provided to the Office of the Auditor General to help inform the office's Public Accounts audit.
- The staff at the Corporate Financial Assurance Audit team also correspond with the Office of the Auditor General on the results of the Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- Staff from the Office of the Provincial Controller and the Auditor General's Office have discussions throughout the year on matters that may impact the Public Accounts.
- The discussion becomes more frequent late in the fiscal year, prior to the Province's fiscal year end.
- In these meetings, representatives from both offices discuss areas of audit focus and what information is required for the audit to go smoothly.
- The Treasury Board Secretariat also reviews the Audit Planning Report produced by the Office of the Auditor General at the start of the audit, and works with the office to ensure the completeness of the audit plan.

- Reviewing the Audit Planning Report provides an opportunity for TBS to identify potential areas of improvement for future Public Accounts.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.
- These meetings continue throughout the audit, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller also provides analysis related to any items identified while preparing the Public Accounts.
- The Treasury Board Secretariat also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- The offices also work toward finding resolution on how matters should be best reflected in the consolidated financial statements.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the Treasury Board Secretariat time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.

- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the Province's records.

Examples of Success in this Approach

- The Province and the Auditor General work closely to make sure that the Province is accountable when it comes to Ontario's finances.
- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the Province made is in how third party revenues are shown in the consolidated financial statements from hospitals, school boards and colleges, referred to collectively as the broader public sector, or BPS, in the Public Accounts.
- Third party revenues from the BPS, such as tuition fees, patient fees, research grants and donations, have been part of the Public Accounts since 2005-06 when it was recommended they be consolidated by the Office of the Auditor General.
- Previously, third party revenues were not reported separately as revenue, but were included against expenses reported by the hospitals, school boards and colleges.
- Starting in 2016-17, about $7.9 billion of third party revenues are now shown as a separate line as part of total revenues in the Public Accounts.
- Now, all assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear in their corresponding categories in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which was $591 million in 2016-17, has been combined with overall provincial interest expense.

- This debt used to be included in the expenses of the respective ministry that oversee the hospitals, school boards and colleges, namely Ministry of Health and Long-Term Care, Ministry of Education and the Ministry of Advanced Education and Skills Development.
- It's important to note that this presentation change does not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party revenues in their accounting under Public Sector Accounting Standards.
- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government business enterprises.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.

- Ontario is now using the IFRS standards to account for its government business enterprises in the Public Accounts.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a government business enterprise is.
- When I say government business enterprise, I mean government organizations that:
    - Are legal entities that are separate from the Province with the power to draw up and sign contracts in their own name. Government business enterprises can sue on their own behalf and be sued.
    - They have the financial and operating authority to do business without constantly seeking government permission.
    - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
    - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- The change implemented for 2016-17 related to rate-regulated government business enterprises.
- Rate-regulated government business enterprises are permitted to report under Generally Accepted Accounting Principles for rate-regulated companies in the United States in their own financial statements.
- This permission is in accordance with guidance provided by Chartered Professional Accountants Canada.
- Under Public Sector Accounting Standards, however, all government business enterprises must be reported under IFRS standards.
- Because of this difference between the government business enterprises internal accounting and the accounting they provide to the Province, it is necessary to make adjustments for any differences between the US Generally Accepted Accounting Principles and IFRS standards.

- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The other government business enterprises that are included in the Public Accounts – the Ontario Lottery and Gaming Commission and the Liquor Control Board of Ontario – use IFRS for their statements, so no adjustments are required.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.
- In previous years, the Province has used the unadjusted statements of Ontario Power Generation and Hydro One prepared in accordance with Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no significant change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.

- In the future, the Province will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the Province has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the Province wants to ensure that the Public Accounts is ready to be released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.
- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to allow the Ministry of Finance to provide personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.

- Many of the changes that the Province has suggested are supported by the Auditor General, and public servants work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the audit of internal financial systems and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

4. Long-Form Member Question_IESO Use of Market Accounts_20180223.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the public service makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

Last Updated: February 23, 2018
Reviewed by: Bryant Sullivan, OPCD, Sofie DiMuzio.

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather to understand the sufficiency of the processes and controls in place at the agency to ensure that appropriate accounting policies are chosen and followed.

- In the case of IESO, management made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's audit committee, its board of directors and its third-party independent external auditor.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO made the decision to recognize its market accounts assets and liabilities – the balances that exist as a result of $17 billion in transactions – in its financial statements.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken delivery of electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for producing the electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. Our involvement is on the accounting side of things.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we expect organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the financial statements that are provided to us.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.
- The Office of the Provincial Controller agrees with this change because it is in accordance with the Public Sector Accounting Standards.

Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO is a counterparty to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- Without reflecting the accounting for the transactions on the financial statements of the IESO, there are a set of transactions that are being recorded only in a separate set of accounts that are not presented in the financial statements of the entity.
- Based on IESO's survey of accounting practices for the other independent system operators in North America, the vast majority of them recognize the balanced owing from and to the system participants.
- IESO settles the market similar to what the Toronto Stock Exchange does with respect to trades between buyers and sellers of stock – and it too recognizes the amounts due from and due to the market participants in its financial statements.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.
- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.

- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would be invisible in the Province's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

Conclusion

- So in conclusion, I'll say again that the Province supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.

- The Province accepts the financial results presented from government agencies like the IESO, provided they follow the Public Sector Accounting Standards.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- Thank you.

5. Long-Form Member Question_Pension Asset Accounting_20180222.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the Province I would welcome that as well.

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the Province continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the Province released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue.
- The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the Province as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the Province's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the Province has been using in Public Accounts since 2001, and so the Province was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

- To allow for the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The Treasury Board Secretariat then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the Province that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.
- The Province has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.

- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one.
- External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the Province on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the Treasury Board Secretariat announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the Province as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.
    - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

- The Province asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The Province accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as provincial assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the Province's decision to list these pension plans as assets.
- The panel needed to determine whether the Province could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the Province and the employee sponsors.
- This future economic benefit can be realized by reducing the contributions the Province makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the Province controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In

the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the Province can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.
- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.

- It is important to note that the Province is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the Province could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the Province to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor, only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.

- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the Treasury Board Secretariat's position on these pension plans, TBS also sought out further advice.
- The Province sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.
- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The Province's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the Treasury Board Secretariat determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the Province is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the Province arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- Public Sector Accounting Standards do not say that the Province must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the Province and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the Province

following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.

- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

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Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with some of the highest distribution charges.

- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

  - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

    - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

    - In January this year, over 220,000 OESP credits were issued to households across the province.

  - Establishing the new First Nations Delivery Credit.

    - Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and

recognizes First Nations' contribution to the provincial electricity system.

- Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- The government has aligned eligibility for Global Adjustment (GA) refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for the 8 per cent rebate are also eligible for Global Adjustment (GA) refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

  - All RPP consumers receive Global Adjustment (GA) refinancing through the Ontario Energy Board's (OEB) RPP rate setting process.

  - Consumers not participating in RPP but who are eligible for Global Adjustment (GA) refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked

bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

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2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

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It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio,

Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;

5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and

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5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees,

which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

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These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

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There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA_MOF_long form QA_Balanced Budget_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

SCOPA_MOF_long form QA_Credit Rating_v17 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- The Third Quarter Finances forecast the net debt-to-GDP ratio to be 37.6 per cent in 2017–18.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.

- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.

- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- The Third Quarter Finances forecast the net debt-to-GDP ratio to be 37.6 per cent in 2017–18.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."

- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.

- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.

- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

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B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

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AG 2017_News Release_Chapter 2.stub.pdf

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AG 2017_Summary_Chapter 2.stub.pdf

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AG 2017 Report on Fair Hydro Plan.stub.pdf

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FW_ SCOPA - Logistics Note for Attendees + Upda....pdf

From:	Nelson, Dane (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Ue, Allison (TBS)
Subject:	FW: SCOPA - Logistics Note for Attendees + Updated Materials
Date:	February 27, 2018 5:00:16 PM
Attachments:	SCOPA_Day of Logistics_20180227.docx SCOPA Briefing Binder_Feb 27 2018.zip

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Hi Martin and Dave,

Please find the latest versions of the SCOPA materials attached and a summary of logistics for tomorrow.

The logistics document includes:

- A list of attendees, including suggestions on who is present in the Committee Room (Amethyst Committee Room 151) vs in the Anteroom (Committee Room 2)
- Other details, such as Wi-Fi access and a map of the Legislature

Please remind attendees to have their access card with them tomorrow. They will need to present it at the security desk upon arrival at the Legislature.

The following external attendees have already been registered with security to speed up the sign-in process. We recommend they arrive early to allow about 15 minutes for the security desk to issue their visitor badges.

OPG:
- Ken Hartwick, John Mauti

IESO:
- Peter Gregg, Kimberley Marshall

Staff can meet in the anteroom (Committee Room 2) at 12:00pm to settle in. They can leave their jackets and bags in this room during the appearance. We will also have 'runners' that can escort them to the Committee Room (Amethyst Committee Room 151) as needed.

Revisions since last update

Tab 1_____Agenda & Logistics Overview

Tab 2_____Strategic Approach

Tab 3_____Roles and Responsibilities Outline

Tab 4_____Summary Status Table

Tab 5_____TBS Deputy Angus Opening Remarks (updated)

Tab 6_____Comprehensive QAs

- Secretary of the Cabinet Key Messages (updated)
- Treasury Board Secretariat (updated)
- Ministry of Energy (updated)
- Ministry of Finance

Tab 7_____Long-Form Member QAs

- Treasury Board Secretariat (updated)
- Ministry of Energy
- Ministry of Finance
    - (Q2 Credit Rating updated)
    - (Q3 Debt updated)

Tab 8_____Tips for Presenting at SCOPA

Tab 9_____Auditor General Reports

- 2017 Annual Report: Chapter 2
- 2017 Special Report on the Fair Hydro Plan

Tab 10_____Environmental Scans

- Treasury Board Secretariat
- Ministry of Finance

Tab 11_____Reference Materials

- Government Response to Auditor General's 2017 Annual Report
- House Book Notes

Regards,

Dane Nelson, Senior Policy Advisor
Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

SCOPA_Day of Logistics_20180227_1.pdf

DAY OF LOGISTICS

SCOPA: Amethyst Room (Committee Room 151)
Anteroom: Committee Room 2 (Capacity: 20-25 people)

- CCTV details
  Channel 25 for Amethyst Room

- WiFi details

SSID:	AssemblyGuests
User ID:	chamberguest
Password:	january2018

Map:

1. Amethyst Room (Committee Room 151)
2. Anteroom (Committee Room 2)
   *NOTE: Next to the Lieutenant Governor's Suite
3. West doors

Wednesday, February 28, 2018

Time	***Activity***
12:00 p.m.	Attendees are welcome to meet in Anteroom (Committee Room 2)
12:30-3:00 p.m.	SCOPA hearing in Amethyst Room Amethyst Room attendees include: • At the table (3): - Helen Angus, TBS Deputy Minister - Serge Imbrogno, Energy Deputy Minister - Scott Thompson, Finance Deputy Minister • Behind the table (18): CAB: - Steve Orsini, Steven Davidson, Lynn Betzner, Boafoa Kwamena TBS: - Karen Hughes, Cindy Veinot, Sofie DiMuzio, Bryant Sullivan, Gabrielle Gallant Energy: - Steen Hume, John Whytock OPG: - Ken Hartwick, John Mauti IESO: - Peter Gregg, Kimberley Marshall Finance: - Tim Shuurman, Jenna LeBlanc OFA: - Gadi Mayman Anteroom attendees include: TBS: - Mark Donaldson Energy: - Tim Christie OFA: - Ken Kandeepan Floaters: - Sebastian Prins, Alisha Tharani, Erin Ovenden

SCOPA Briefing Binder_Feb 27 2018.pdf

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SCOPA Cover Page_20180227.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER

Updated: February 27, 2018

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Tab 10_Environmental Scan.pdf

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Tab 11_Reference Materials.pdf

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Tab 9_Auditor General Reports.pdf

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Attachment B. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

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Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

- Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

- There were five questions posed to Minister Sandals:
  - Three were on government advertising
  - One was on the government's **relationship with the Auditor General**

Q. Smith Cross: Minister Sandals, the auditor says it takes fortitude for her to address significant issues without fear of push-back and reprisal. **Has there been push-back and reprisal for the auditor general?**	Sandals: Absolutely not. I mean certainly at Treasury Board Secretariat, we work with her very closely. There are all sorts of projects that we've worked on together. For example, if you were to read through the fine print in the fall economic bill that's before the House right now, you would see that the first report she did on agency annual reports, we actually have in that legislation the follow up on all the recommendations that she made on that report back in 2015. **So my office does work with her quite closely.**

  - The last question was inaudible, but the answer referenced **Public Accounts**

Q. Smith Cross: (Inaudible)	Sandals: Well, I...you'll have to ask her that because I...that's that's not something I can speak to. I mean, I think it's clear that there are some issues where we have some **differences in accounting.** Those have been discussed, you know, extensively previously in public venues. A lot of you have written about pensions and fair hydro accounting and various issues. **So those are ongoing discussions that we have with the auditor.** I don't think there's any particularly new information in her chapter 2 on public accounts. **Those are issues that you are already all aware of previously, as were we**. Actually, the think that is really new and interesting about the public accounts isn't so much in the auditor's report, **as it was in the PC platform that came out, where the PCs seem to have adopted our accounting. They agree we have a balanced budget. They've used our pension accounting. They've assumed our accounting for the hydro sector.** And, in case you think I made this up, Kevin Page who is the former federal budget officer, who reviewed the Conservative platform, says that he believes that using the economic and fiscal assumptions from the Ontario fall economic statement is a reasonable starting point for costing an election platform. **So he's acknowledging the fact that our accounting, in the fall economic statement is, in fact, the accounting that has been adopted by the Conservative Party.**

- **PC Response**
  - Introductory remarks focused generally on waste and mismanagement.
  - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

- **NDP Response**
  - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
  - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
  - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
  - 41% of articles referenced TBS-related issues
  - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
  - **The government's relationship with the Auditor General**
  - **Pre-election report**
  - **Distrust of government numbers/"two sets of books"**

  Recent articles include:
  - Lorrie Goldstein: **"Clock ticking for Liberals as pre-election finance report deadline looms"** (Toronto Sun, December 16, 2017)

    - **Minister Sandals spokesperson quoted:** "A spokesperson for Treasury Board President Liz Sandals told the Sun in an email that **Sandals and Lysyk have, "spoken at length about the Pre-Election Report process, and agree that the past format and process won't work during the 2017 election cycle, given the proximity of the spring budget season to the early summer election date."**

      The email added: "In conversation with the Auditor, Minister Sandals has emphasized her commitment, and the commitment of our government, to openness and transparency. We will continue to work collaboratively with the

Office of the Auditor General to determine how we can best ensure that this commitment is fulfilled."

- Jim Warren: **"The role of auditor general is shifting in troubling ways"** (Toronto Sun, December 16, 2017)

  - "However, the role of the auditor general today has increasingly become one that embarrasses government and serves to point a finger of blame rather than show a new direction for the better. **This new role is actually further eroding trust in government and making matters worse.**

    We saw this trend alive and well last week in Ontario as provincial Auditor General Bonnie Lysyk released her annual report and held a media availability on Ontario Premier Kathleen Wynne's Liberal government.

    Lysyk identified some areas that the government must act and provided some useful information for the public. **But in some specific areas, she pushed the boundaries of what is an independent audit versus what should be kept in the political arena.**

    This continues a trend in Ontario that former ombudsman Andre Marin started when he took his role as an independent officer of the legislature and made it political. Marin was accused of crossing the boundary from independent officer of the legislature into partisan politics. When he eventually ran as a Progressive Conservative against the Liberal government he criticized, Marin lost."

- Lorrie Goldstein: **"Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted"** (Ottawa Sun, December 17, 2017)

  - "Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister Charles Sousa that the government's books are now balanced and will be for at least the next two years, **the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.**

    While the government predicted a balanced budget for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict

the actual deficit this year will be in the range of $4 billion to $4.5 billion."

Public Accounts

- **Media Coverage**
  - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
  - Government key messages were picked up 100% of the time
  - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
  - Top themes in the first 24 hours of media coverage of Public Accounts 2016-17:
    - **Disagreement between the government and auditor general**
      - "Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards." (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books." (David Reevely, "Ontario government's rosy financials grow in a bed of BS," Ottawa Citizen, Sept. 7, 2017)
      - **"Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)

    - **Ontario's fiscal position: government debt and deficit**
      - Canadian Press coverage focused on Minister Sandals' quote from the media event: "The public wants to know, are you managing your deficit?" she said. **"Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."** (Shawn Jeffords, "Ontario says 2016 deficit was $991 million, beating target by $3.3 billion," The Canadian Press, Sept. 7, 2017)
      - "Conservative finance critic Vic Fedeli says it is clear that the provincial debt is "out of control." He said in a statement Thursday that the Liberals are thumbing their nose at the legislature's independent experts and presenting their own version of the province's public accounts." Shawn Jeffords, "Ontario says 2016 deficit was $991M, auditor general says

government 'understating' deficit," The Canadian Press, Sept. 7, 2017)

- **The government's alleged continued dismissal of watchdogs**
  - "Auditor general Bonnie Lysyk said Thursday the government "significantly understated" its deficit - $1.4 billion in her view - while the Financial Accountability office this week called the Liberal plan to reduce the debt burden "unlikely."" (Christopher Reynolds, "Ontario's deficit drops to $1 billion, though fiscal watchdogs have a bone to pick," Queen's Park Briefing, Sept. 7, 2017)

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

On February 20, 2018, during Concurrence in Supply, MPP MacLeod referenced the Auditor General's annual value-for-money audits:

> "But one of the things that I would like to do as I conclude is to talk a little bit more about value-for-money audits in the province of Ontario and where we can find waste. We know, for example—**Speaker, as you know, I'm the Vice-Chair of the public accounts committee and I'm the Treasury Board critic, as well as the finance critic—that one of the things that we see each and every time that there is an auditor's report is, sometimes, billions in waste.**
>
> Before we left at Christmas, a few days before we left and recessed for the time being, the Auditor General came out—an independent officer of this Legislative

Assembly—and indicated to all of us that there was at least $1 billion in waste throughout the system that could be absorbed in other ways and in better spending in the province of Ontario for programs."

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD

OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Stakeholder reports and commentaries (e.g. Ontario Chamber of Commerce Economic report; FAO report on Hydro One; Fraser Institute commentaries on fiscal situation)
- Third Quarter Ontario Finances
- Executive compensation (e.g. OPG & IESO)
- IESO/OPG "inappropriate expenses"
- IESO Audit Committee meeting
- OPG Financing of Regulatory Assets

Recent TBS SCOPA Appearances

November 15, 2017
2016 Annual Report, Auditor General
Consideration of chapter 5, Review of Government Advertising

May 31, 2017
2016 Annual Report, Auditor General
Consideration of section 4.03, Information and Information Technology General Controls

October 5, 2016
2015 Annual Report, Auditor General
Consideration of chapter 2, Public Accounts of the Province
- Report published on May 17, 2017

April 13, 2016
2015 Annual Report, Auditor General
Consideration of chapter 5, "Toward Better Accountability"

- Report published on December 5, 2016

SCOPA - MOF Issues Scan (Feb 2018).pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MINISTRY OF FINANCE – ISSUES SCAN

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Hydro One sale will lead to long-term costs for Ontario: Financial Accountability Office

- **Canada - National Post**
- **Mon Feb 12 2018**
- **Section:** Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - Taxpayers would have saved $1.8 billion if the **Ontario government** had taken on traditional **debt** to fund infrastructure projects instead of partially privatizing Hydro One to pay for the work, the province's fiscal watchdog said Monday.

In a report that examined the Liberal government's sale of shares in the utility, the Financial Accountability Office examined both scenarios and found the cost implications were clear.

"Over the long term, the FAO estimates that the province's net **debt** will be higher as a result of the partial sale of Hydro One when compared to an alternative of borrowing to finance an equivalent amount of infrastructure investment," said Jeffrey Novak, chief financial analyst for the FAO.

Hydro One went public in November 2015, with the province saying it planned to use the sale of shares to fund transit and infrastructure projects. By December 2017, the province had sold off 53 per cent of its stake in the company.

Ontario Premier Kathleen Wynne speaks to media at the Legislative Assembly of Ontario in Toronto on Thursday Jan. 25, 2018.

The FAO analysis said that in the first three years after the partial privatization, the province saw a total profit of $3.8 billion on the deal.

But by 2018-2019, the FAO forecasts a loss of $1.1 billion because of one-time charges and fewer dividends as a result of the province's smaller stake in the company.

The FAO report also warns that Hydro One's $4.4 billion deal to buy U.S. energy firm Avista will "dilute" Ontario's shares of Hydro One ownership from 47 per cent to 42 per cent.

"To purchase Avista Hydro One is issuing convertible **debt** to the folks who own Avista,"Novak said. "When the purchase is completed that convertible **debt** will be transformed into shares of Hydro One. The province will just have less of a percentage of overall shares outstanding in the company."

The Electricity Act, which regulated the sale of Hydro One shares, requires the province to take steps to ensure that its ownership stake remain no lower than 40 per cent. That

means if further purchases shrink Ontario's ownership of the company it will have to buy back shares.

Energy Minister Glenn Thibeault said the government remains the largest single Hydro One shareholder and the company continues to be subject to provincial oversight.

"Hydro One's rates will continue to be regulated by the Ontario Energy Board - the province's independent energy sector regulator," he said. "In fact, our government passed legislation that has further strengthened the board's oversight.

As of December 2017, the province had raised an estimated $9.2 billion by selling Hydro One shares, the FAO said. The Liberal government has said they plan to use $5 billion to pay down leftover **debt**, while the remaining $4 billion would fund transit and infrastructure projects.

NDP energy critic Peter Tabuns said the FAO's analysis backs up his party's argument that the utility's partial privatization is bad for Ontarians. The NDP have promised to buy back shares of Hydro One and return it to public ownership if elected in the spring election.

"We're going to have less revenue in the future (from Hydro One)," he said. "That means less money for schools and hospitals. We're going to have higher **debt** charges than we would have had if we'd simply borrowed the money … In every aspect, this has been a bad deal for Ontarians."

PC finance critic Lisa MacLeod said the Hydro One share selloff has helped the government balance its budget before the election but will have consequences down the road.

"This was short-term gain for very long-term pain," she said. "This is not a good deal for Ontarians."

- **Length:** 596 words
- **Tone:** Neutral
- **Reach:** 607500

They'll be the debt of us; Liberals go on $7-billion election-year spending spree

- **Toronto Sun**
- **Tue Feb 6 2018**

- **Page:** A6
- **Section:** News
- **Byline:** James Wallace
- **Source:** Toronto Sun

How bad is Kathleen Wynne's credit-card addiction? Prepare to be depressed. Ontario Liberals ran deficits in 11 of their past 14 budgets, almost 80% of the time, a new Fraser Institute report by Ben Eisen reminds us.

Liberal deficits ranged from $991 million to $19.3 billion annually and averaged $8.6 billion annually while Wynne and Dalton McGuinty held office.

Over the same period, Liberal program spending - excluding **debt** - increased from $70 billion to $130 billion, an 84.6% increase, almost double the 44% growth necessary to offset inflation and population growth.

And now, in an election year, Wynne's government has massively hiked spending - by $7 billion over last year.

It's difficult to see that as anything but the craven, self-serving tactic of a government that cares primarily about clinging to power and little about the damage living beyond our collective means causes the province, or the **debt** it's heaping on future generations.

Over the past several months, the Wynne government has rolled out a succession of free-for-all campaign promises - free tuition, hydro rate cuts, free prescription meds for youth.

They are, of course, not free, and in fact come with an onerous price tag.

Provincial net **debt** has increased dramatically since the Liberals were elected in 2003, the Fraser report notes, currently some $302 billion or $21,500 for every soul in the province. Net **debt** stood at $138 billion when the Liberals took power.

"Between 2003 and 2015, Ontario added more **debt** either per person or relative to the size of the economy than any other province in Canada and by quite a bit," Eisen said.

Following a period of "modest" spending restraint over the past four years (since the last election) the Liberals have returned in an election year where they're dogged by scandal and lousy poll numbers to spending money they don't have and piling on **debt**.

"The government, by its own accounting, is adding **debt** and the pace of date accumulation hasn't even really slowed down in the past few years," Eisen said.

And that accounting is pretty loosey-goosey.

Ontario's Financial Accountability Office concluded last year that the Liberals were hiding a $4-billion deficit this year, while claiming they would balance the province's books. The FAO estimated Ontario's actual deficits at $4 billion this year, $7 billion in 2019, $9 billion in 2020 and almost $10 billion in 2021; Provincial Auditor Bonnie Lysk

calculated the Liberals'25% hydro rate cut will cost $4 billion in unnecessary interest payments, improperly took $26 billion off the province's books and will drive up rates for 30 years.

Eisen, in his report "Repeating Past Mistakes? Spending Restraint Critical for Ontario's Fiscal Health" suggests the cold, hard facts clearly show the Liberals are living off a credit card.

"No matter how you slice it, no matter whose accounting you want to use, Ontario's government is continuing to rack up **debt** to the tune of about $10 billion a year," he said.

"So the notion we're making huge fiscal progress is wishful thinking at best."

The most obvious consequence of higher **debt** is higher **debt** payments, which are poised to hit $12 billion annually, eating up eight cents of every dollar in government revenue.

In context, families deal with this issue on a daily basis. The higher your house mortgage the less you have to spend on food, lights and other necessities - in Ontario's case, health care, education, transit, social housing and other critical services.

Neither is Ontario's economy growing as it should, as the rest of Canada is.

From 2003 to 2015, inflation adjusted per-person economic growth in Ontario averaged 0.5% annually, about half the growth rate in the rest of Canada.

Meanwhile, Ontario now has the highest hydro rates in Canada, the highest auto insurance premiums, the highest sub-sovereign **debt** in the world, and a declining auto and manufacturing sector.

Had the Liberals managed modest restraint over the term of government, more in line with GDP growth and inflation, program spending last year would have been $20 billion to $30 billion lower and the government would have been sitting on a $19-billion to $28-billion surplus, Eisen calculated in his report.

It was the road not taken, and all Ontarians will wear the price of that for years to come.
jawallace@postmedia.com

- **Length:** 680 words
- **Tone:** Negative
- **Reach:** 171076
- **Illustration:** / Sources: **Ontario, Ministry Of Finance** (2003-2017) And **Ontario, Ministry Of Finance**(2017)-Fraser Institute Graphic; / (See hardcopy for photo); / WYNNE Hiked spending;

Ontario's finances are still a mess

- **Toronto Sun**
- **Wed Jan 10 2018**

- **Page:** A15
- **Section:** Comment
- **Byline:** Beneisen
- **Source:** Toronto Sun

Last spring, Ontario Finance Minister **Charles Sousa** tabled a **balanced budget** for 2017/18, the province's first since 2007/08.

The Wynne government frequently points to this projection as evidence that it's managing public finances effectively.

However, there are many reasons to treat such claims with skepticism.

For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government's accounting techniques into question, arguing proper accounting would show continued deficits.

Others, including the government's Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.

There are still more reasons to be concerned about the health of Ontario's finances.

Among the most important and under-discussed is that to shrink the deficit in recent years, the Wynne government has relied heavily on large annual increases in transfer payments from the federal government.

Despite constant tension between the McGuinty/Wynne governments and the Harper government in Ottawa during the latter's time in office, in reality, federal transfer payments to Ontario have grown briskly in recent years.

Specifically, in 2009/10, the federal government sent $14.3 billion in major transfers to Ontario.

This number has steadily swelled and will reach $21.1 billion this year - a nominal increase of 48% in eight years.

That's a far faster increase than what would have been necessary to offset inflation and population growth and far faster than provincial economic growth.

In fact, holding all else constant, if the growth of federal transfers to Ontario had been in line with either of these economic indicators, the province would still face a significant

deficit today.

In short, rapid growth in transfer payments is an important and frequently overlooked reason for Ontario's recent deficit reduction.

One reason that overall transfers to Ontario are up is that the province has, since 2009/10, received equalization payments.

To simplify slightly, equalization is a federal program that gives money to lowerincome provinces to help them fund public services.

Ontario became eligible for the program for the first time in history in 2009/10 and has remained eligible since.

Equalization payments to Ontario peaked at $3.3 billion in 2012/13 and have come down gradually, but they remain a source of revenue.

This year, the government is receiving $1.4 billion through the equalization program.

In total, the province has received $18 billion in equalization since 2009.

Again, without this historically unprecedented help from Ottawa, the recent runup in Ontario's **debt** would have been even worse.

Recently, the federal department of finance revealed equalization payments for 2018/19, confirming Ontario will indeed continue to receive them.

In other words, the province will retain its status as a lowerincome, "have-not" province, relying on equalization payments to help fund programs for another year.

And yet, the Wynne government frequently points to its **balanced budget** projections as proof of its successful approach to public finances.

In fact, the province went a full decade between balanced budgets, triggering a huge run-up in public **debt**.

Even then, the government has needed a lot of help - from both its own questionable accounting methods and a big increase in federal transfers - to finally present a **balanced budget**.

Simply put, the idea that a notionally **balanced budget** means Ontario's finances have been restored to health simply does not withstand scrutiny.

Eisen is director of the Fraser Institute's Ontario Prosperity Initiative.

- **Length:** 542 words
- **Tone:** Neutral
- **Reach:** 171076

Grit numbers don't add up; Independent financial officers say Wynne government's books can't be trusted

- **Toronto Sun**
- **Sun Dec 17 2017**

- **Page:** A8
- **Section:** News
- **Byline:** Lorriegoldstein
- **Source:** Toronto Sun

It's unprecedented in Ontario's political history.

With less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.

Both the Auditor General and the Financial Accountability Office (FAO) say that despite claims by Wynne and Finance Minister **Charles Sousa** that the government's books are now balanced and will be for at least the next two years, the reality is the Liberals are running multi-billion-dollar deficits that will only get bigger over time.

While the government predicted a **balanced budget** for the current 2017-18 fiscal year in its April 28 budget speech, FAO Chief Economist David West and Auditor General Bonnie Lysyk predict the actual deficit this year will be in the range of $4 billion to $4.5 billion.

The Liberals' budget speech also predicted balanced budgets for the 2018-19 and 2019-20 fiscal years.

But the FAO last week, supporting earlier findings by Lysyk, projected a $7.1 billion deficit in 2018-19, $7.8 billion in 2019-20, $9 billion in 2020-21 and $9.8 billion in 2021-22.

Counting all government fiscal obligations, the FAO projected that, "Ontario's net **debt** will increase by more than $75 billion over the next four years to approximately $400 billion, on the Auditor General's accounting basis."

(When the Liberals took office in 2003, Ontario's net **debt** was $138.8 billion) The FAO warned "rising **debt** will increase the Province's net **debt**-to-GDP ratio (a key indicator of financial health) to over 41% by 2021-22, well above the government's interim target of 35% by 2023-24."

Wynne's goal of reducing the net **debt**-to-GDP ratio to prerecession levels of 27% by 2029-30 appears even more unlikely.

Lysyk and the FAO warn there are serious financial implications to the fact the province now has, in effect, two sets of books, one by the Wynne government and the other by independent financial officers of the Legislature whose job is to report on the province's fiscal situation.

In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of non-standard accounting" will "seriously distort the true state of the province's finances…The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances."

In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers'Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions.

She also contends the financial borrowing required to finance Wynne's reduction of electricity rates by 25% is improperly designed to keep the costs from impacting Ontario's annual deficits and **debt**, and will require the public to pay $4 billion more than necessary in interest payments over three decades.

As a result, Lysyk has refused to give the Wynne government's Consolidated Financial Statements a clean bill of health, issuing a "qualified opinion" regarding their accuracy last year, the first time an Ontario auditor general has done so in more than two decades.

The Wynne government disagrees with Lysyk's conclusions, portraying it as an accounting dispute.

In November 2016 it hired what it described as an expert, fourperson pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers'pension plan.

The government also issued a 1057-word rebuttal of Lysyk's findings on its Fair Hydro Plan, stating, "the **government of Ontario** does not agree with the assertions and conclusions expressed in the report by the Office of the Auditor General", adding it had

consulted “legal, accounting, financial and energy sector third-party experts” to ensure it was in compliance with “Public Sector Accounting Standards.“lgoldstein@postmedia.com @sunlorrie

- **Length:** 677 words
- **Tone:** Negative
- **Reach:** 222184
- **Illustration:** Stan Behal, Toronto Sun Files / KATHLEEN WYNNE; / SOUSAFinance minister;

EDITORIAL: Liberals hiding deficit, second watchdog says

- **torontosun.com**
- **Wed Dec 13 2017**
- **Section:** Editorials
- **Byline:** Postmedia News
- Permalink

The financial credibility of Premier Kathleen Wynne’s government has taken another huge hit with a second independent, non-partisan financial watchdog of the Ontario Legislature saying Liberal claims they’ve balanced the budget are inaccurate.

The legislature’s Financial Accountability Office Monday supported an earlier finding by auditor general Bonnie Lysyk that the Liberals are using accounting tricks to hide their deficits from the public.

Contrary to claims by Wynne and Finance Minister **Charles Sousa** in his April 28 budget speech projecting balanced Ontario budgets for 2017, 2018 and 2019, the FAO reported the Liberals are running a deficit this year and predicted they will continue to do so under their current fiscal policies.

The FAO projects the provincial deficit at $4 billion this year, $7.1 billion in 2018, $7.8 billion in 2019, $9 billion in 2020 and $9.8 billion in 2021.

It says these projections are based on weaker revenue growth and the Wynne government’s rejection of “the Auditor General of Ontario’s recommended accounting treatment for both the government’s Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.”

Defying the auditor general, the Wynne government hired what it described as an expert panel, which endorsed its pension accounting.

It also denied Lysyk’s finding its financing of the Fair Hydro Plan to reduce electricity rates by 25% is an accounting trick.

Lysyk said this will cost Ontarians $39.4 billion, including $4 billion extra in interest payments, because the Liberals are transferring the **debt** to Ontario Power Generation

to keep it off the province's books.

FAO chief economist David West said Monday in releasing the FAO's report which backed Lysyk that: "The government is out borrowing this money. This current year they're going to borrow $23 billion in the markets. That's going to rise to $45 billion in the coming years."

The FAO said the Fair Hydro Plan will add $3.2 billion to the deficit by 2021-22.

It also said the Wynne government's rejection of Lysyk's recommended accounting measures means, "it is becoming more difficult for legislators and the public to assess the government's fiscal projections" which "has reduced the transparency and reliability of Ontario's fiscal plan."

In other words, the Liberals' budgeting can't be trusted.

- **Length:** 346 words
- **Tone:** Negative
- **Reach:** 326700

Liberals Under Fire For 'Cooking' Ontario's Books; 'Fair Hydro Plan' undermines accountability standards

- **Toronto Sun**
- **Sun Oct 22 2017**

- **Page:** A5
- **Section:** News
- **Byline:** Antonella Artuso
- **Source:** Toronto Sun

Ontario's Auditor General Bonnie Lysyk revealed this week that Kathleen Wynne's government hid the cost of its "Fair Hydro Plan" from taxpayers.

The way they did it has raised concerns other governments across the country could follow suit and bury deficits.

Although ratepayers will get a temporary, 25% break over four years on their hydro bills, the plan will cost "up to $4 billion more than necessary" in interest, Lysyk said.

The Liberals also "improperly" moved $26 billion in hydro **debt** off their books, borrowing the money through Ontario Power Generation, and as a consequence hydro ratepayers will face increases for 30 years.

Lysyk argued that was like claiming your credit card **debt** is an asset.

Tory leader Patrick Brown was more blunt, accusing the government of "cooking the

books" to "look good in an election year" "Ontario's Auditor General uncovered an appalling attempt to hide the true $4 billion cost of Kathleen Wynne's hydro rebate scheme, a price which will be paid by ratepayers, Brown said in a statement.

"She concluded senior government officials knowingly ignored the government's own policy for preparing financial statements to create an unnecessary, complex, financing structure designed to keep the true financial impact of its rate reduction scheme off the province's books.

"More damningly, the Auditor General said the Canadian Public Sector Accountability Standards are the standard for all federal and provincial governments of Canada and that the Liberal Government "has brushed aside these standards," he said. "The unavoidable and very strong suggestion is that something highly improper has transpired."

Meanwhile, Ontario's budget slight-of-hand is raising questions across the country.

"Listen, if Ontario can legislate an asset in this case, and everybody thinks that's okay, then you can bet your booties Quebec will be right on the train following them and so will British Columbia," said Tim Besuchamp, the former director of the Public Sector Accounting Board (PSAB) of Canada. "Anybody who's got a deficit - they'll just make it go away by creating an asset."

If Ontario's method of accounting for expenses spreads, taxpayers might never know if their government is truly in the red or black or even how big a **debt** has been run up, said Beauchamp, who's spent 27 years helping develop clear and open accounting standards so citizens can see what their governments are doing.

"And so the bottom line, everything balanced to zero," he said. "And that's just not the way it is."

For their part, Ontario Energy Minister Glenn Thibeault said the government wanted to make sure the borrowing costs for the Fair Hydro Plan were borne by hydro customers, not taxpayers.

Rate-regulated accounting is commonly used in the energy sector, he said, and cast doubt on the auditor's projection of $4 billion in extra borrowing costs.

Colin Nekolaichuk, a spokesperson for Thibeault, said in an email that "It was essential that we get the structure right (of the Fair Hydro Plan) while delivering the meaningful relief Ontario families needed," Beauchamp acted as a consultant for Lysyk but said she only asked him what he thought of the accounting plan, not to confirm her opinion.

Lysyk also canvassed Auditors General across Canada, and everyone agreed that Ontario was going down the wrong path, he said.

"If they get that through to the province's financial statements, then every province, every municipality in Canada, will take advantage of it," Beauchamp said. "It will destroy what the Public Sector Accounting Board has worked for ever since it started."

Public accounting standards, in the U.S. as well as Canada, mandate that governments not treat taxes yet to be levied as an asset, he said.

He dismissed the position of the **Ontario government**, that this is at its heart an accounting dispute.

"(This) is going to bleed through the whole public sector in Canada," Beauchamp said. "It sets a precedent…It's not two accountants sitting in a boxing ring having it out with each other." aartuso@postmedia.com

- **Length:** 650 words
- **Tone:** Negative
- **Reach:** 222184
- **Illustration:** Craig Robertson, Toronto Sun / Premier Kathleen Wynne defends her government in the Legislature regarding a special report from Ontario Auditor General Bonnie Lysyk, inset.; / (See hardcopy for photo);

Provincial Debt: The Next Generation; Ontario set to hand billions in unpaid bills to young people

- **Toronto Sun**
- **Fri Oct 20 2017**

- **Page:** A6
- **Section:** News
- **Byline:** Antonella Artuso
- **Source:** Toronto Sun

Ontario is facing three decades of soaring **debt** unless the provincial government permanently raises revenues or cuts spending by at least $6.5 billion, the Financial Accountability Office of Ontario (FAO) says.

Otherwise, much like the recent decision to push off some hydro costs on future Ontario electricity customers, it will have to go on the tab of younger generations.

FAO chief economist David West said that as the baby boomers retire and age, it will put enormous pressure on the provincial budget.

Without a significant and speedy response from government, the **debt**-to-GDP ratio would rise to a staggering 63% by 2050, gobbling up public funds for **debt** replayment charges instead of health and education services, he said.

"The longer the government delays fiscal policy changes, the more expensive it will be

for future Ontarians," West said.

The FAO's Long-Term Budget Outlook looked at the provincial economy and the province's fiscal position over the next 30 years.

The report released Thursday opens with the Yogi Berra quote, "The future ain't what it used to be."

According to the FAO projections, unless Ontario makes significant changes to its budget, future governments will be in a poor position to respond to any financial crises such as a recession.

"Importantly, if the needed fiscal adjustments are postponed, the burden of stabilizing Ontario's public finances would be increasingly shifted from the baby boom generation to younger Ontarians," the report says.

The **Ontario government**'s vow to lower provincial debt-to-GDP from its current 40% to 27% by 2029-30 would require higher taxes or lower spending starting this year, the report says.

Finance Minister **Charles Sousa** said the report also notes that the growth in the province's economy is projected to remain strong.

Seniors are living longer so the government is taking steps to encourage savings, one of the reasons why Ontario led the national discussion on enhancing pensions in retirement, he said.

"And as a government, we need to be fiscally responsible, we need to manage effectively those social programs, the extension of universal health care," Sousa said.

PC MPP Vic Fedeli said the FAO painted "a very bleak and a very stark picture" of the province's budget future.

"It won't be left to just the baby boomers to pay the **debt**," Fedeli said. "It's now going to roll over into Ontario's youth."

Ontario already owes more than $307 billion. aartuso@postmedia.com

- **Length:** 389 words
- **Tone:** Neutral
- **Reach:** 171076
- **Illustration:** Dave Abel, Toronto Sun / Onatrio's FInancial Accountability Office says the province faces decades of soaring **debt** unless provincial revenues are boosted or the government slashes spending by at least $6.5 billion. Finance Minister **Charles Sousa**, right, remains confident in the health of the provincial economy.; / (See hardcopy for photo);

Millennials will have to deal with Ontario's debt unless action taken: watchdog

- **National Post**
- **Thu Oct 19 2017**
- **Section:** PMN Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - Millennials will have to foot the bill for Ontario's rising **debt** over the next three decades if the government doesn't hike taxes or cut spending by $6.5 billion annually to address major demographic changes, the province's fiscal watchdog warned Thursday.

As the baby boom generation ages, the province's economy will change, experiencing slow revenue growth and requiring increased spending on social programs like health care, Ontario's Financial Accountability Office explained.

Consequently, government **debt** - which currently sits at $312 billion - will be driven up unless taxes are increased or spending is cut beginning next year, the office warned in its long-term budget outlook.

"If these difficult fiscal changes are postponed the burden of stabilizing Ontario's public finances would be increasingly, and arguably unfairly, shifted from the baby boom generation to younger Ontarians," said David West, the FAO's chief economist.

The FAO report, which took a year to research, said balancing the province's budget annually won't be enough to offset the financial impacts of the aging demographic. The government must generate surpluses and use that cash to pay down **debt**, it said.

West acknowledged, however, that a $6.5 billion tax increase or spending cut would have large budget implications.

"(It's) roughly equivalent to eliminating funding for 40 per cent of the province's hospitals, raising the HST rate by two percentage points, or a 25 per cent increase in federal transfers," he said.

The report recommends the **Ontario government** stick to a promise it made to drop the provinces' **debt**-to-gross domestic product ratio from its current level at 40 per cent to 27 per cent by 2030. West said the measure, which gauges the province's ability to pay back and manage **debt** interest payments, would actually increase to 63 per cent by 2050 if significant fiscal changes aren't made.

"Since the demographic pressures on the budget will not intensify until the mid-2020s it will be tempting to postpone or even ignore the difficult fiscal policy changes that are going to be required to stabilize or reduce Ontario's **debt** burden," he said, adding that

would result in higher costs to reduce the **debt**.

Ontario Finance Minister **Charles Sousa** said the province takes the FAO's findings seriously, but he would not commit to either hiking taxes or slashing spending. The province will find ways to foster further **debt** management, he said.

"In all of Ontario's history, for that matter even Canadian history, very little has ever occurred in terms of reduction in actual **debt**," he said. "Ontario's **debt** is managed by its ability to support growth in our economy. I am very sensitive to the degree of **debt**."

Ontario Progressive Conservative finance critic Vic Fedeli called the FAO report a "bleak and stark" budget picture.

"The **debt** is going to crowd out the services that families need like health and education," he said. "All the things people have come to rely on they will struggle to pay for and the baby boomers **debt** will now roll over to the younger Ontarians."

Peter Tabuns, an NDP legislator said the government has been fiscally irresponsible and has tried to deal with budget shortfalls by selling off public assets.

"Their whole approach is one that's making the fiscal picture in Ontario much tougher,"he said.

- **Length:** 532 words
- **Tone:** Negative
- **Reach:** 607500

Government borrowing to lower hydro bills gets broadside from AG

- **National Post**
- **Wed Oct 18 2017**

- **Page:** A5
- **Section:** Canada
- **Byline:** David Reevely
- **Source:** National Post

Hiding billions of dollars the **Ontario government** is borrowing to lower electricity bills for a few years will cost hydro users an extra $4 billion, the province's auditor general reported Tuesday.

Maybe worse, Bonnie Lysyk said in a special report on the Liberals' "Fair Hydro Plan," the tricks the government is using throw doubt on all the province's books. The government, citizens, auditors and giant institutions that lend the province money are pretty much operating in a post-truth universe, where what the Liberals say is going on

with Ontario's finances has begun to drift from any previously understood shared reality.

What the Liberals have done "would be unacceptable in the private sector, and we maintain that this is also unacceptable in the public sector," Lysyk reported. "If the consolidated financial statements are so unreliable that an adverse opinion is warranted, terms like '**balanced budget**, 'deficit, 'asset' and 'net **debt**' will be meaningless."

Here's what's happening. Earlier this year, Premier Kathleen Wynne gave up defending the increases in the price of electricity since the Liberals took over in 2003. She and her cabinet put together a plan to cut bills that amounted to paying today's costs with borrowed money and repaying it with interest later. It has already cut residential bills by an average of 25 per cent, beginning last summer. And it will increase them by a combined total of $21 billion over time, when all that interest has to be paid, according to a report by Ontario's financial accountability officer (whose job is specifically to run budget numbers independently of the government, and whose findings Lysyk used for her dollar figures).

The argument the government makes is that the investment in cleaner and more reliable power will benefit us for a long time, so we should pay for it over more years - that's "fairer." This is debatable but not obviously ludicrous. That additional "fairness" is costing $17 billion in interest, spread out over years.

The Liberals really, really, really wanted to keep that **debt** off their books, so they could also go into the next election saying the budget is balanced. Borrowing billions in an election year would get in the way. So they did some financial engineering to put the **debt** on Ontario Power Generation instead. The Crown corporation is publicly owned but it doesn't get interest rates as good as the provincial government itself, so that's where the $4-billion premium comes in.

Her team looked at emails from the upper reaches of several government ministries, though the Ministry of Energy kept some back, Lysyk's report says. "Hopefully they'll come to the conclusion that it can be financed by the province … rather than externally, as that would be a lot simpler and cheaper," she quotes one unnamed senior official, in an email. Nope. OPG is borrowing the money on our behalf and then there's a complicated interplay of regulatory and financial manoeuvres to book money we're expecting hydro users to pay for electricity in the 2020s, '30s and '40s as assets that balance off the **debt**. The essence is to say Ontarians are borrowing these billions as hydro ratepayers, not as voting citizens.

Same people, different hats, different rules.

All of which is bull, Lysyk says. The point of accounting is to tell you how much money you have, how much you owe and how much you are owed. That's what the standards for Canadian public-sector accounting are supposed to achieve.

“These standards are there to ensure that the financial reporting of government policy decisions reflects common sense: borrowings are **debt**, unearned revenue is not an asset today and when your expenses exceed your revenues, you incur a deficit,” Lysyk said Tuesday. Nobody has used electricity in 2025 yet, let alone 2040. You can’t count guesstimates of use and prices 20 years down the line as an asset today.

The usefulness of doing so was visible when Energy Minister Glenn Thibeault and Treasury Board president Liz Sandals responded to Lysyk’s report. They think the $4-billion estimate for the extra cost of hiding the **debt** is too high. They argue the gap between the government’s interest rate and Ontario Power Generation’s might not be as big as the financial accountability office thinks.

They could be right - we won’t know for sure till the 2040s. So it’s a bit weird to account for it as if it’s fait accompli.

The government even went shopping for different accounting standards it might use, Lysyk’s report says, trying out rules used for private businesses in the U.S. because they seemed friendlier. Consulting firm Deloitte told the government this was OK, a position it repeated at the government’s request on Tuesday after Lysyk released her report.

Maybe reasonable accountants can disagree about this. But the ground they’re fighting over is whether the trick the Liberals used to keep the **debt** off the government books at a cost of billions of dollars is an acceptable trick, not whether they’re keeping the **debt**off the government books or whether it’s going to cost billions of dollars.

Which is just what you want from your government, right? Ottawa Citizen

- **Length:** 847 words
- **Tone:** Neutral
- **Reach:** 159480
- **Illustration:** Brian Thompson, Postmedia News / Hiding billions the **Ontario government** is borrowing to lower electricity bills for a few years will cost hydro users an extra $4 billion, the province's auditor general says.;

Liberals costing us extra $4 billion in interest costs

- **torontosun.com**
- **Tue Oct 17 2017**
- **Section:** Regional
- **Byline:** Antonella Artuso Toronto Sun
- Permalink

The Kathleen Wynne’s Liberal government is flouting accounting rules and taking on an unnecessary $4 billion in extra borrowing costs — to be applied to future electricity bills — to keep the true cost of its Fair Hydro Plan buried, Ontario Auditor General Bonnie Lysyk says.

A battle between accountants is not usually the stuff of Hollywood blockbusters, but Queen's Park was enthralled Tuesday as Lysyk and her experts faced off against the government and its counter experts.

While the Liberals tried to minimize the conflict as a mere accounting dispute, Lysyk said what was at stake was far more important as the financing manoeuvre allows the government to write its own budget bottom line.

"This is wrong," she said.

Under public pressure to respond to soaring hydro costs across Ontario, Wynne earlier this year released a plan that reduced bills by 25% on average, and promised to keep increases to the rate of inflation for four years — in part by eliminating the provincial portion of the HST from bills.

The government also announced that it would open contracts it had signed with private power suppliers, such as Bruce Nuclear and wind and solar providers, and refinance those usually 20-year deals over a longer period to lower bills in the short-term.

However, instead of borrowing that money itself — the provincial government gets a really good rate — the Wynne team decided to ask Ontario Power Generation to borrow it at higher rates.

The difference adds up to an extra $4 billion in borrowing interest costs — for a total cost of $39.1 billion for the hydro plan — but means that extra red ink doesn't show up on the province's books, Lysyk said.

Internal government correspondence shows that was the goal of the financing plan, she said.

Energy Minister Glenn Thibeault said the government made a policy decision that the cost of refinancing electricity assets would be borne by the hydro ratepayer, not taxpayers, as has been the historic practice.

The government's accounting method has been reviewed and approved by senior staff from several ministries, the cabinet office, Ontario Power Generation, the Independent Electricity Operator, and third-party consultants, including KPMG and Deloitte, he said.

Treasury Board President Liz Sandals noted that they also took hydro relief programs off of the electricity bill, and placed them on the government books, because that was a more appropriate way to record the expense.

"There was no fast ones being pulled at all," Thibeault insisted.

The government is now estimating the cost of the Ontario Fair Hydro Plan (OFHP) at

less than $20 billion.

Lysyk said she consulted with auditor generals from across Canada, and attending in support at her media conference was Tim Beauchamp, the recently retired director of the Canadian Public Sector Accounting Standards Board.

The provincial government's method of accounting, a first in Canada for any government, is not yet carved in stone and the $4 billion can be saved, Lysyk said.

"There's still time to fix it," she said.

What the opposition parties had to say

The Ontario Liberal government "cooks the books" — spending up to $4 billion more than necessary to hide the true cost of its latest hydro scheme, Progressive Conservative Leader Patrick Brown says.

By structuring the cost of the Ontario Fair Hydro Plan (OFHP) in such a way that it was off the government books — adding to borrowing costs but not showing up as more red ink in the provincial budget — the Liberals were essentially forcing taxpayers to fund their re-election campaign, he said.

"This is cynical politics at its worst, making up their own rules, charging Ontario families more to serve the partisan interests of the Liberal Party," Brown said, shortly after a damning auditor's report was tabled in the Ontario legislature Tuesday.

The Ontario Liberals, who ran a budget deficit for several years after the 2008-09 recession, announced in their spring budget that the books will be balanced for the upcoming fiscal year.

Provincial voters go to the ballot box this June.

NDP MPP Peter Tabuns, who also sided with the auditor general's view that this type of accounting was wrong, said the government was attempting to book as an "asset" its ability to charge future hydro ratepayers more than their power will be worth.

"This was one of the most shameless displays I've ever seen from Liberal cabinet ministers," Tabuns said, after Energy Minister Glenn Thibeault and Treasury Board President Liz Sandals defended their financing decisions. "They're trying to make this whole thing to be a fight over accounting. The guts of this is that the government is spending $4 billion more in interest that we're going have to pay for in our hydro bills, so they can move these numbers off their books so they can make it look like they're not running a deficit."

What the Auditor General of Ontario Bonnie Lysyk says:

Kathleen Wynne government's complex financing for Ontario Fair Hydro Plan (OFHP) needlessly dumps up to $4 billion more in borrowing interest costs on Ontarians.

Only reason to spend extra $4 billion is to ensure that the expense doesn't impact government's surplus and deficit figures.

No government in Canada has ever used this method of accounting before, like booking credit card **debt** as an asset. The government books should reflect the costs of its policy decision — about $2.5 billion a year until 2027.

Ministry of Energy gave law firm $500,000 retainer to go through its OFHP e-mails, requested by the auditor, and still haven't turned over everything even though other energy agencies have. Government spent at least $2 million on outside advisors to design this financing structure.

Total bill for OFHP — $39.4 billion over 30 years.

What the **Ontario government** and energy agencies say:

Total bill for OFHP will be under $20 billion, down from an estimate of $27 billion in March.

Auditor's e-mail request pulled over 100,000 e-mails, so lawyers needed to go through them to ensure they were on topic. About 7,000 have been turned over already.

Financing decision was based on government policy to make sure hydro ratepayers, and not taxpayers, covered the cost.

Similar accounting methods are used by many energy agencies, here and in the United States.

Government enlisted advice of many experts, including KPMG, on the structure of the accounting.

- **Length:** 1034 words
- **Tone:** Neutral
- **Reach:** 326700

Government and auditor general at odds over size of Ontario's deficit

- **thestar.com**
- **Thu Sep 7 2017**
- **Section:** News | Toronto Star
- **Byline:** Robert Benzie

It's not quite Mayweather-McGregor, but the stakes are high in the accounting slugfest between the provincial government and the auditor general.

Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals - and the bureaucrats in their ministries - say Ontario's deficit last year was $991 million, while auditor general Bonnie Lysyk maintained it was $2.44 billion.

At the same time, the province said the net **debt** was $301.6 billion, while Lysyk calculated it was $314.1 billion.

The actuarial dispute - a reprise of last year's tussle (www.thestar.com) between Queen's Park and the fiscal watchdog - stems from a difference of opinion over whether the government should include on its bottom line its share of assets from the teachers' and public servants' pension funds that it co-sponsors.

Sandals on Thursday shrugged off Lysyk's accounting (www.thestar.com) interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

"The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

"Quite frankly, I don't think the public is terribly hung up on accounting disagreements."

Sousa noted the books are balanced this year, but he refused to bite when asked what plans the Liberals have for an expected budget surplus next spring before the June 7 election.

A government-appointed panel of accounting experts concluded earlier this year that Lysyk erred (www.thestar.com) when she claimed the province couldn't count as assets the taxpayer-funded surpluses in the co-sponsored Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan.

Still, the auditor general (www.auditor.on.ca) , who has sparred with the government for years on myriad issues, stuck to her guns.

"The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so," she said.

Lysyk warned that her next target will be an audit of the government's 25-per-cent electricity rate cut, which "may lead to a larger understated deficit and net **debt** next year."

A special report on the scheme will be released this fall.

- **Length:** 393 words
- **Tone:** Negative
- **Reach:** 999000
- **Illustration:** Finance Minister **Charles Sousa** said Thursday the books are balanced this year, but he refused to say what plans the Liberals have for an expected budget surplus next spring before the June 7 election.

Is Ontario deficit really $991M?

- **Toronto Sun**
- **Fri Sep 8 2017**

- **Page:** A6
- **Section:** News
- **Byline:** Shawn Jeffords
- **Source:** The Canadian Press

The **Ontario government** posted a $991-million deficit last year - and said Thursday it had beat its 2016 projections by $3.3 billion.

But the province's auditor general says the Liberal government is "significantly understating" its deficit, which she pegs at $1.4 billion.

Ontario Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals made the announcement Thursday as they released the province's 2016-2017 public accounts.

The government attributes the results to billions of increased revenue, a cut in program spending, and smaller interest costs to service the province's **debt**.

In 2016, Ontario's auditor general Bonnie Lysyk questioned the province's decision to include a pair of public pensions - the Ontario Public Service Employee's Union Pension Plan and the Ontario Teacher's Pension Plan - as assets on its balance sheet. As a result, she has offered a "qualified" opinion on the financial statements two years in a row.

Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble.

"The public wants to know, are you managing your deficit?" she said. "Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." Lysyk disputes the government's figures and says "the statements were not prepared following Canadian Public Sector Accounting Standards."

- **Length:** 213 words
- **Tone:** Neutral
- **Reach:** 171076
- **Illustration:** / SOUSAAnnouncement; / SANDALS"Qualified";

Ontario says 2016 deficit was $991 million, beating target by $3.3 billion

- **National Post**
- **Thu Sep 7 2017**
- **Section:** PMN Canada
- **Byline:** The Canadian Press
- Permalink

TORONTO - The **Ontario government** posted a $991-million deficit last year - beating its 2016 projections by $3.3 billion.

Ontario Finance Minister **Charles Sousa** and Treasury Board President Liz Sandals made the announcement today as they released the province's 2016-2017 public accounts.

The government attributes the results to billions of increased revenue, a cut in program spending, and smaller interest costs to service the province's **debt**.

Ontario's auditor general has questioned the province's decision to include a pair of public pensions as assets.

But the government maintains it is following established accounting practices by doing so.

Sousa says the province will balance its budget in 2018-2019 ahead of next spring's provincial election.

- **Length:** 110 words
- **Tone:** Neutral
- **Reach:** 607500

Hansard Scan

- **8** or **19%** of the questions directed to the Minister of Finance in the fall 2017 session of the legislature were about fiscal accountability.
    - **7** of these questions cited a report or commentary by the FAO.
    - **5** of these questions cited a report by the Auditor General.
    - The Minister of Finance was asked **3** questions on fiscal accountability following the release of the Auditor General's report on the Fair Hydro Plan.
- The Minister received **1** question on the privatization of public assets and the partial sale of Hydro One, following news about the Canadian Union of Public Employees' (CUPE) lawsuit.
- **5** or **12%** of the questions directed to the Minister of Finance in the fall 2017 session of the legislature were about the government's fiscal policies.

Ontario Hansard - 11-September2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: Good morning, Speaker. My question is for the finance minister. For years, this government has been presenting our Legislature with made-up finance numbers. Whether it was from the independent experts or the government's own confidential cabinet documents received in the gas plant scandal, it's been proven that the numbers they present to the public are simply made up to fit their story. Last week, the Financial Accountability Officer—

The Speaker (Hon. Dave Levac): The members will lose their props shortly and actually get warned if they do it again.

Interjection.

The Speaker (Hon. Dave Levac): You want to make an excuse? You know what I'm talking about, and you know you're not supposed to do that.

Carry on.

Mr. Victor Fedeli: Last week, the Financial Accountability Officer provided irrefutable evidence they were using "unlikely assumptions" for debt reduction claims. He projects a "steady deterioration in the budget deficit over the next five years." All of their made-up numbers don't come anywhere near historical numbers. It's only wishful thinking.

I would ask the minister, if he can't present the province's finances with integrity—

The Speaker (Hon. Dave Levac): Thank you.

Minister of Finance?

Hon. Charles Sousa: Let me begin by thanking the Financial Accountability Officer for the work he does, and their department, recognizing their sensitivity analyses that they provide.

Every year, similar accusations are made by the member opposite, and every year, we exceed our targets. Every year, we exceed our targets, and public accounts reaffirms that. We beat our deficit by $3.3 billion this year. We are the leading jurisdiction in North America when it comes to economic growth. Our unemployment rate is at 5.7%. We're on track to balance the budget—as we said we would—this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the finance minister: As if the blistering commentary from the FAO wasn't enough, the Auditor General has now weighed in. She said that this government's annual deficit is understated, net debt is understated and accumulated debt is understated. We're not talking nickels and dimes here. The auditor says that our deficit is $1.5 billion more and our net debt is $12.5 billion more than reported. For the second year in a row, the auditor has said, "Based on the ... evidence ... the statements are significantly misstated."

Both of the legislative officers have told us that this government's numbers can't be trusted. I ask the minister: Why does it always take the Financial Accountability Officer, the Auditor General or the OPP to get to the truth in Ontario?

Hon. Charles Sousa: Investors around the world are investing in Ontario for a reason. They recognize that Ontario's economy is growing. They're recognizing that our fiscally responsible approach to growing the economy, investing in things that matter, is working. And our plan is working. We're borrowing $30 billion less than we had anticipated. Our net debt to GDP is lower now than was anticipated and is tracking to go further down.

As we produce and as we move forward, we're taking every necessary step to grow the economy. And as we grow the economy, it enables us to source more opportunity to invest in things that matter to Ontarians, things that that member and his party opposite have voted against. They voted against providing more free tuition for our students. They voted against the very nature of trying to provide extended pharmacare for every young person under 25. These are the reasons we're able to do that: because we've balanced the budget and we're taking the steps necessary to invest in infrastructure. That makes us competitive and enables us to balance the books all the while.

Ontario Hansard - 21-September2017
PRIVATIZATION OF PUBLIC ASSETS

Mr. Patrick Brown: My question is for the Minister of Finance. CUPE announced this morning that they are appealing the ruling in their lawsuit against the government. That, of course, would be the lawsuit that alleges that the sale of Hydro One was motivated by improper and ulterior purposes. CUPE alleges that it does not benefit the people of Ontario. In a direct quote—this is about "lining the pockets of political cronies on Bay Street and funnelling money" into party coffers.

Mr. Speaker, 80% of the province is against this fire sale of Hydro One. Was the government, according to CUPE, motivated by improper and ulterior purposes?

Hon. Charles Sousa: The answer is no, Mr. Speaker.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Patrick Brown: Again to the minister: One of the government's defences was that they were going to be using the fire sale of Hydro One for infrastructure. What's really interesting is that the member for Dufferin–Caledon exposed yesterday that 20% of the infrastructure budget was not used. That added up to $3.3 billion. Coincidentally, that $3.3 billion is pretty close to what the Hydro One sale was supposed to net for infrastructure—an interesting coincidence.

My question is pretty simple. Mr. Speaker, to the Minister of Finance: Why sell Hydro One for apparent infrastructure money if the Liberals weren't going to use it?

Hon. Charles Sousa: This province, under this government, over the last 10 years, has contributed more to our infrastructure spend than other governments combined over that history. We have put in our budget $190 billion over the next 13 years. That member opposite voted against those measures.

The law case that he makes reference to has been dismissed by the courts without merit. He knows that, and he's trying to infer something he knows is not true. What we're doing is stimulating growth, improving our economy and balancing the books, and we are making the investments necessary for our future competitiveness.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Patrick Brown: Mr. Speaker, again to the Minister of Finance—and I did not get a response on why the Hydro One fire sale funds were not used on infrastructure.

Fred Hahn from CUPE had a pretty good quote that I'll quote right here. He said, "The case is about more than the sale of Hydro One. It's about the government's responsibility to act in the best interest of its citizens. When a government abandons that responsibility, and does so to the benefit of their political party, they must be held accountable."

CUPE is right. There must be accountability. Will the minister admit that the sale of Hydro One was not about the best interests of the province of Ontario; it was about the Liberals trying to find funds to make up for their promises that they can't honour? This was not about the best interests of Ontario; it was about the best interests of the Ontario Liberal Party.

Hon. Charles Sousa: We are repurposing some of our assets, as all governments do over the course of their mandates, to try to ensure that we invest most appropriately in those measures for the benefit of our economy. That is in the best interests of Ontarians. Ontarians will remain the largest shareholder of a much more productive organization, reinvesting those proceeds into infrastructure—

Interjection.

The Speaker (Hon. Dave Levac): The member from Bruce–Grey–Owen Sound, come to order.

Finish, please.

Hon. Charles Sousa: We established the Trillium Trust to ensure that all those proceeds, dollar for dollar, get earmarked specifically for those investments. The member opposite knows that, and he voted against those measures.

We are going to continue to work in the best interests of Ontarians, and that is what's important. We are looking long-term, and we're not making these election-cycle decisions that this member opposite, who has no plan, who has offered nothing in return—

The Speaker (Hon. Dave Levac): Thank you.

New question.

Ontario Hansard - 03-October2017
GOVERNMENT FISCAL POLICIES (GOVERNMENT RECORD)

Mr. Arthur Potts: My question is to the Minister of Finance. In 2010, this government promised to eliminate the deficit and balance the budget by 2017-18. This was not very long

after the 2008-09 recession, which had very extremely negative impacts on countries around the world, and Ontario, of course, was not immune.

However, rather than slash the programs and services upon which Ontario families rely in order to eliminate the deficit, I am very proud of the fact that our government chose to build Ontario up. The investments that we have made in transit, schools, hospitals and education have led people to choose Ontario as their home now more than ever. And I, for one, am happy to see that there are more supports for municipalities. Ontario cities and towns are now receiving four times the level of support they got in 2003, more than $4 billion in support.

Can the minister remind the House how on this side of the House we've been able to invest in the people of Ontario for 14 years without the slashing and cutting that they would do on that side of the House?

Hon. Charles Sousa: I thank the member for the question. For the past 14 years, our government has taken a balanced approach to keeping Ontario at the forefront of a global economy. We managed our expenses and transformed how we deliver public services, making them more efficient and more effective.

This is the type of financial responsibility that the opposition doesn't understand. By investing in progressive policies, we're stimulating growth in our economy. We're making historic infrastructure investments: $20 billion into hospitals, $16 billion into schools, free tuition for our students and free pharmacare for our young people. Meanwhile, our program-expense-to-GDP is lean and lower than pre-recession levels.

Let me remind you: Under the previous PC government, Ontario taxpayers were paying 15 cents for every dollar earned just to service the debt. Now in Ontario we're paying only 8.4 cents, and next year it will be even lower. We've eliminated the deficit, we've balanced the budget and that means more money to invest in health care, education and other public services that—

The Speaker (Hon. Dave Levac): Thank you. Supplementary.

Mr. Arthur Potts: Back to the Minister of Finance: If you listen, Speaker, to what the opposition are saying, they want people to believe that we've made no advancements over the last 14 years. They would like people to believe we have had no improvements in businesses and no investments in industries like the tech sector and the STEM sector. They would want you to believe—

Mr. Victor Fedeli: They advanced, but they all advanced backwards. They advanced backwards.

The Speaker (Hon. Dave Levac): Too late. The member from Nipissing is warned.

Interjections.

The Speaker (Hon. Dave Levac): In case the member needs a reminder, we're into warnings.

Mr. Arthur Potts: They would want us to believe that Ontarians have not been working hard to grow this economy into one of the strongest in Canada and all of North America. It's hard to rectify that with what the Minister of Finance has just spoken about: how, under Liberal leadership, we have dug Ontario out of the recession, and how, because of this, we are now able to make very progressive investments in new policy that will attract foreign investment.

Can the minister tell us about the great progress that this side of the House has made over the last 14 years, to make Ontario the best place to create and grow jobs?

Hon. Charles Sousa: Minister of Economic Development and Growth.

Hon. Brad Duguid: I'm very proud to stand up today to say that we've worked tirelessly with our business community and Ontario workers to build Ontario up and to turn our economy into one of the strongest in Canada and North America.

Yes, we've weathered one of the worst recessions we've seen in recent memory. Since then, we've added 760,000 net new jobs. Since then, and for the last three years, we've been leading the G7 in growth. Since then, we've brought our unemployment rate down to 5.7%, the lowest in 16 years. Since then, we've invested $3 billion in partnerships with businesses, leveraging $27 billion in private sector investment, supporting 170,000 jobs and, just as importantly, we're now poised to lead in the new global economy.

We've transformed our economy; we're heading in the right direction—

The Speaker (Hon. Dave Levac): Thank you. New question.

Ontario Hansard - 05-October2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: My question is for the Minister of Finance. Last month, there were two

legislative reports on the state of Ontario's finances. They were described as blistering and scathing. Those descriptions, Speaker, are well deserved.

Both of the Legislature's—

Interjections.

The Speaker (Hon. Dave Levac): Stop the clock, please. The member from Beaches–East York, come to order.

As I indicated to both sides, I'm not going to tolerate the interjections, and you'll see how quickly I'll deal with them if I have to.

Continue, please.

Mr. Victor Fedeli: Both of the Legislature's independent officers openly challenged the ministry's credibility. The Financial Accountability Officer said that the minister is using "unlikely assumptions" to make his debt claims. In fact, they said that if any of these wild assumptions fall short, the government's targets would not be achieved. They particularly took issue with the government's overly optimistic growth projections.

If the FAO doesn't believe the minister's numbers, why should the people of Ontario?

Hon. Charles Sousa: Economists independent of government across Canada have cited this: Ontario is leading the way in economic growth in our country. The Conference Board of Canada has cited that we've outperformed and had the most transparent levels of reporting than any other government in Canada.

This member opposite continuously degrades and talks down the outstanding achievements of Ontarians and businesses in our province that are creating wealth, creating greater prosperity, and hiring for more jobs. We have the lowest unemployment of any part of this country, and we are overachieving every single year that we put forward our budgets, to the benefit of Ontario.

We've reduced the deficit to under $900 million just last year, and we're going for it: We're balancing the budget this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the minister: The FAO's comments were strong enough, but the Auditor General painted an even more damning picture of the minister's financial reporting. For the second year in a row, the auditor wouldn't sign off on the province's books without a big asterisk.

The auditor went further, stating flat out that the statements are "significantly misstated." She says our deficit last year was $1.4 billion higher than claimed, and our debt is a whopping $12.4 billion higher. She warned us and the markets and investors that we need to be able to rely on government figures being accurate, but "this year they cannot do so." That's her quote. You cannot rely on their numbers.

Again we ask—and I know they're belittling the auditor; I can hear their comments again. But we ask: If the AG and the FAO don't believe the minister's numbers, why should we?

Hon. Charles Sousa: Investors around the world believe our numbers. The people of Ontario and throughout Canada who buy our bonds believe our numbers. We have the highest liquidity of trade in bonds of any government across this continent, in fact.

Our debt-to-GDP has been reduced—and it continues to reduce—below 37%, again overachieving our targets. Our accumulated deficit—which is a representation of the historical activity of Ontario's budgets—today is at around 27%, the same as it was 25 years ago. Our interest on debt as a percentage of revenue today is 8%. When he was in power, when the Progressive Conservatives were in power, Mr. Speaker, it was 15% of our revenues.

We are overachieving, and we continue to do so. We are using the same standards as we've always done, including what the Auditor General has done even as recently as three years ago.

1050

The Speaker (Hon. Dave Levac): Final supplementary?

Mr. Victor Fedeli: Back to the minister: If the minister is comfortable using, "significant misstatements" and "unlikely assumptions," then it should be no surprise to hear what else he continues to claim.

They continue to say, "We're leading the G7 in economic growth." But Ontario is not number one, Speaker. There are 27 US states ahead of us.

The minister continues to claim that manufacturing exports are up, but StatsCan just last week reported that Ontario manufacturing sales suffered their largest decline in eight years.

Here are some of the recent headings: "July Trade Deteriorates"; "Exports Languish"; "Ontario Residents Hit by Manufacturing Downturn"; "International merchandise exports fell"; "Manufacturing sales slip."

Speaker, given all these examples, plus the Financial Accountability Officer's and the Auditor General's criticism, how can anyone trust anything this government says?

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please. Thank you.

Minister.

Hon. Charles Sousa: Mr. Speaker, facts do matter, and that side of the House—

Interjections.

The Speaker (Hon. Dave Levac): Well, we're there. From now on, we're going into warnings for those interjections. The member from Renfrew–Nipissing–Pembroke, come to order. You brought us to this point. Warnings are on.

Finish.

Hon. Charles Sousa: Mr. Speaker, facts matter. This member opposite is citing sources—

Interjection.

The Speaker (Hon. Dave Levac): The member from Leeds–Grenville is warned.

Carry on.

Hon. Charles Sousa: He's citing references from years past, recognizing that as of today, Ontario is ahead of the curve. Our unemployment rate is the lowest it has been in 16 years, at 5.7%.

That's not to say that we're not continuously looking at stimulating economic growth around all of Ontario, recognizing some regional disparities exist. That member opposite and that party voted against those measures that improve prosperity, stimulate new growth and continuously balance the books.

Ontario Hansard - 19-October2017
FISCAL ACCOUNTABILITY

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Minister of Finance. This morning, we learned from the Financial Accountability Office that the government's debt

reduction claims are $6.5 billion off the mark. The FAO said that's equal to eliminating funding for 40% of Ontario's hospitals, to put it in perspective. They painted a bleak and stark long-term budget outlook for Ontario.

Meanwhile, the government continues to insist they're on track even though they use the same data the Financial Accountability Office used. The FAO clearly stated, "without an adjustment to Ontario's fiscal policy," we will see increasing budget deficits and higher levels of debt.

The people of Ontario clearly cannot trust anything this government says. Will the minister come clean about their debt claims and tell us what they plan to do to address these new concerns?

Hon. Charles Sousa: I appreciate the question. I appreciate the work done by the FAO in regard to looking long term, in terms of the demographic and challenges that not only Ontario—he makes reference to the fact that all OECD countries everywhere around the world are going to be facing these challenges.

We, too, came out with a long-term report last year recognizing these very issues. The FAO rightly states that we have to take measures and have to address these long-term challenges. It is exactly what it is that we're doing in our budgets today. We are looking long term in terms of the programs we put in place to support health care, to support education. In fact, universal health care that has been expanded to youth under 25 is part of that. The work that we're doing with pension reform is part of that, both of which that side of the House have actually declined to do.

We need to support these very measures. We need to manage our fiscal house. That's why we're balancing the books this year, next year and the year after that.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the minister: The FAO confirmed again this morning that their so-called balance is all with the one-time asset sales and other one-time revenues. But here's why what the Financial Accountability Office said today matters to families: The FAO says not meeting the debt targets means there will be "less fiscal room for spending on government priorities, such as health and education." The FAO also said that Ontario is less able to respond to unforeseen events, such as the next recession.

Interjection.

The Speaker (Hon. Dave Levac): The chief government whip is warned.

Mr. Victor Fedeli: Perhaps worst of all, the FAO says continuing on this course will unfairly shift the fiscal burden from baby boomers to younger Ontarians.

This week, two independent officers of the Legislature have disputed the Liberals' numbers. How can families ever trust anything this government says again?

Hon. Charles Sousa: We came into office recognizing that the recession had hit us hard, recognizing that the Conservative government federally doubled their debt, had almost the highest deficit in Canada's history under their watch, and we on this side of the House also recognize those challenges. It is why we stimulated growth, invested heavily in infrastructure to build our economy and support the people of Ontario.

Today, we're outpacing Canada and the G7 countries. Today, we have the lowest unemployment in 17 years. Today, 730,000 net new jobs have come to the province. Today, we are continuing to invest long term to address the very challenges that the FAO has rightly cited, ones that we accept and we are taking every step to manage going forward.

We are balancing. We're balancing the books this year. We're balancing the books next year and the year after that, and those members have voted against those measures.

Interjections.

The Speaker (Hon. Dave Levac): Just a little reminder: We're in warnings.

New question.

Ontario Hansard - 23-October2017
FISCAL ACCOUNTABILITY

Ms. Andrea Horwath: My question is for the Acting Premier. Thanks to the Auditor General, we now know that the Premier and her Liberal government are forcing Ontario families to pay $4 billion just to hide the damage that her hydro borrowing scheme will do in the long run. We know that she was warned about the cost, we know she was given other options and we know she went ahead anyway.

Can the Acting Premier tell us who made the decision to ignore staff warnings and push ahead with a $4-billion scheme?

Hon. Charles Sousa: Again, the premise of the question is erroneous. The estimation by the Financial Accountability Officer made reference to what he felt were estimated numbers based on estimated borrowings, which we're reminding everyone that that is not actually what has taken place. So the premise of the question is erroneous.

There is a plan before us which reduces hydro rates, electricity rates, for Ontarians across the province by 25%, enabling us to do so in a responsible manner, which the opposition have now declined.

The Speaker (Hon. Dave Levac): Supplementary?

Ms. Andrea Horwath: Speaker, I would trust the estimations of the FAO and the Auditor General much more than I would expect to trust the estimations of the government. If you recall, this government estimated a $40-million cost of the gas plants scandal, and that was $1.1 billion, so I'm not going to take their estimations; definitely not.

In addition to the $4 billion that this Premier spent to hide the real cost of her $40-billion borrowing scheme, they also forked over another $2 million to consultants to help design said scheme. Since they won't tell us about the $4 billion, will the Liberal government at least make these consultants' contracts public so Ontarians know who exactly it is that's advising the Premier and what direction she was given?

Hon. Charles Sousa: President of the Treasury Board.

Hon. Liz Sandals: First of all, I think it's important to understand that the numbers that the leader of the third party is throwing around were estimates of something or other—projections that came from the FAO. They were not documents that were ever presented to cabinet on which to base a decision. They were projections that came after the fact. They were not cabinet decision-making documents.

The decision that cabinet did make was an important policy decision to say that things that actually have to do with electricity production belong on the rate base, from an accounting and from a real perspective—a financial, fiscal plan perspective. Things which have social policy

impacts belong on the tax base. That's exactly what the accounting is based on, that policy decision to put electricity on the rate base.

The Speaker (Hon. Dave Levac): Final supplementary?

Ms. Andrea Horwath: I have not been gobsmacked in this place for a long time, but for a minister to get up and talk about estimations of "something or other" is pretty worrisome. For a governing party to do that is pretty worrisome.

We know that the Liberal government knew how much it was going to cost to hide the disastrous effect of their borrowing scheme from the public. We know that they knew it was going to cost Ontario families $4 billion to do, and clearly they just didn't care that they were going to spend $4 billion to cook up this scheme. We also know that the people of this province paid an additional $2 million for consultants to tell them how to pull it off.

Why is the Liberal government putting themselves and their party ahead of families once again? They're looking after their political interests, the interests of the Liberals and this Premier, instead of the interests of the families in this province, who are struggling just to make ends meet and pay their skyrocketing hydro bills.

Hon. Liz Sandals: Minister of Energy.

Hon. Glenn Thibeault: When it comes to our policy decision, we actually made a decision that helps every single family in this province by reducing their electricity bills by 25%. Then we went even further: We brought forward our social programs, the OESP program and the RRRP program, for those folks who live in rural or northern parts of our province. They're going to see a 40% to 50% reduction on their bill. That's the policy decision that we made as a government. We made sure that we kept electricity generating assets on the electricity side, and those social programs that I talked about, we pulled those off of the rate base to lower the rates even more and we put that on the tax base.

When it comes to putting families first, it's this government that does so. It's this government that brought forward the reduction, and it's this government that continues to bring forward plans and policies that will—

Interjection.

The Speaker (Hon. Dave Levac): The Member from Renfrew–Nipissing–Pembroke, second time.

Wrap up, please—one sentence.

Hon. Glenn Thibeault: Thank you, Mr. Speaker. It is this government, not the opposition, that is making a difference in the lives of families in this province each and every day.

Ontario Hansard - 23-October2017
FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTABILITY)

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Acting Premier. Under the Fiscal Transparency and Accountability Act, the finance minister is required to provide a fall economic statement. Over the last 30 days, we've all heard the warnings made about this government's documents. The Legislature's Financial Accountability Office says the budget will not balance because the numbers are based on "unlikely assumptions." Last month, the Auditor General said this government has "significantly misstated" the numbers for two years running. Last week, the AG said the government "is making up its own accounting rules."

To the Acting Premier: Is there even a remote chance we're going to see any numbers we can believe?

The Speaker (Hon. Dave Levac): Acting Premier and Minister of Finance.

Hon. Charles Sousa: I reject the premise of this question and the notion which the individual is trying to also reflect. The fact is that Ontario, by all accounts, is leading Canada. We have the lowest unemployment in 17 years, almost 800,000 net new jobs from the depths of the recession. We've been very open and transparent and we've beaten our targets consistently, year over year, as attested by public accounts, which the Auditor General does confirm.

The member opposite may talk about expectations and exaggerations. We deal with the facts here, and we are exceeding and delivering for the people of Ontario.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: Back to the Acting Premier. Well, that's certainly not what the Auditor General told us last week.

The transparency act also requires the finance minister to release August and February reports every year, but, sadly, this minister has missed issuing almost all of them since his appointment. Considering the lack of trust in this government's numbers, we can see why they choose to snub their nose at our laws.

The minister is also required to publish a pre-election finance report, to be reviewed by the Auditor General. The government must provide detailed accounts, the very numbers that the Financial Accountability Officer says would "not be achieved," the very numbers the Auditor General says we "cannot rely on."

Will the government produce a pre-election report? Will there be any numbers in it we can actually believe?

Hon. Charles Sousa: Mr. Speaker, this is a good question, and I'll tell you why. That party, when they were in power, gave us a bogus budget that contained a $5.5-billion—

Interjections.

The Speaker (Hon. Dave Levac): Come to order.

Hon. Charles Sousa: Because of their practices in the past, we passed a law requiring that all governments, going forward, must be open and transparent and deliver those very opportunities for the entire province to see before the next election. We are doing that. The fall economic statement is going to be delivered very shortly as will the future reports that are being questioned here.

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The Speaker (Hon. Dave Levac): Before I turn to the member, I would ask him to listen.

Final supplementary?

Mr. Victor Fedeli: Again to the Acting Premier: The two reports aren't the only documents the members of the House are waiting for, Speaker. The government has withheld thousands of emails from the Auditor General and spent $500,000 on hired lawyers to stall their release. The Auditor General and this Legislature are entitled to those documents—not some of them, Speaker; all of them—and we want them now. Not only that, but the media were told in a response to a freedom of information request that no documents on consultants exist, when clearly they do.

Speaker, to the Acting Premier: The last Liberals that said there were no documents are now in a courtroom down the street. Is that where this one is heading too?

Hon. Charles Sousa: Minister of Energy.

Hon. Glenn Thibeault: Our government remains committed to being open and transparent and continues to co-operate—

Interjection.

The Speaker (Hon. Dave Levac): The member from Leeds–Grenville will withdraw.

Mr. Steve Clark: Withdraw.

The Speaker (Hon. Dave Levac): Carry on.

Hon. Glenn Thibeault: We continue to co-operate with the Office of the Auditor General. For

example, the Independent Electricity System Operator has so far provided 1,200 records to the Auditor General. OPG has provided hundreds of records. The Ontario Financing Authority has provided 3,242. The Treasury Board has provided thousands of records. We've provided 13,212. In this process, Mr. Speaker, and throughout everyday operations, we're adhering to all document retention standards.

Additionally, the ministry has informed me that we're continuing to release additional information to the Auditor General, and we're doing this because we understand the importance of providing the auditor with everything that she has asked for. The ministry has been regularly providing the Auditor General with additional responsive documents each week, and we'll continue to adhere to this process.

Ontario Hansard - 25-October2017

FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTING PRACTICES)

Mr. Peter Tabuns: My question is to the Acting Premier. This government keeps insisting that

it must spend an extra $4 billion on a complicated alternative financing scheme because it is the only way to keep ratepayer and taxpayer costs separate. But nearly 20 years ago, the government established the Ontario Electricity Financial Corp. as a way to separate taxpayer and ratepayer funds.

The problem for this government is that the OEFC debt stays on the government's books, and this government wants to keep deficits and debt off the books to make the Liberal Party look better. Will the government admit that it is wasting $4 billion in ratepayer money for no other purpose than to help the Liberal Party?

Hon. Deborah Matthews: The Minister of Energy.

Hon. Glenn Thibeault: I'm very pleased to rise and talk about the policy decision that we made as a government. We all know that the fair hydro plan is actually reducing the rates by 25% for every single household in this province and for 500,000 small businesses and farms. That policy decision made sure that we actually looked at where the borrowing was coming from, and then made sure that the borrowing stayed within the electricity system.

We actually did pull costs from the rate base and put them onto the tax base. Those were the social programs. The Affordability Fund, which we announced yesterday, is a $100-million fund which is going to help tens of thousands more people in this province with their electricity bills. We're going to continue to work for the people of Ontario and continue to provide the relief that we know they wanted and asked for.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Peter Tabuns: Again to the Acting Premier: The government could have used normal public sector accounting to achieve exactly the same policy goals, and it would have cost ratepayers $4 billion less. They could have used the OEFC to administer the program and keep ratepayer and taxpayer funds separate.

The only reason to use this $4-billion alternative financing trick is to hide the true cost of the government's hydro borrowing scheme from the public. Will the government help ratepayers instead of the Liberal Party and stop this needless waste of $4 billion today?

Hon. Glenn Thibeault: Minister of Finance.

Hon. Charles Sousa: In regard to the OEFC, it is still involved. As the member may or may not know, during our recent transaction to broaden the ownership of Hydro One, it paid down OEFC debt, in order to accommodate our work.

Furthermore, we inherited a stranded debt of almost $28 billion from the opposition, which was not a marketable opportunity, unlike what is happening here in this instance.

As we proceed forward, we are taking a proportionate amount off the tax base and we have taken a proportionate amount off the rate base, as is normal under these circumstances. OEFC is engaged, and it's doing its part.

Ontario Hansard - 15-November2017
FISCAL ACCOUNTABILITY (ONTARIO ECONOMY)

Mr. Victor Fedeli: My question is for the Premier. The fall economic statement presented yesterday in this House is nothing more than a pre-election—

Interjection.

The Speaker (Hon. Dave Levac): Stop the clock. The Minister of Tourism, Culture and Sport will come to order. The next one gets us to warnings.

Finish, please.

Mr. Victor Fedeli: This is a pre-election house of cards. As we dig deeper into the numbers, it's clear that the Auditor General and the Financial Accountability Officer are absolutely correct not to believe them.

By the government's own admission, the economy will underperform many private sector forecasts for 2017, which had growth at 3% or higher. Despite the government's narrative, it doesn't line up with the fact that growth is slowing as we speak. Yet they're still predicting a $10-billion revenue increase this year. None of that adds up.

To the Premier: Why do they continue to thumb their nose at the Legislature's independent experts, who say that the budget is not balanced?

Hon. Kathleen O. Wynne: Here are the facts that we are dealing with in Ontario.

Our economy has grown faster than all G7 countries over the past three years, and 800,000 net new jobs have been created since the recession.

Our unemployment rate is at a 16-year low, and it has been below the national average for 31 straight months.

We've beaten our deficit targets eight years in a row, and our debt-to-GDP ratio is projected to fall from around 40% to 37.8%.

The fact is that Ontario is doing very well. We are leading economic growth in this country.

What the member opposite fails to acknowledge is that there is more to be done, which is why our plan to raise the minimum wage, to ensure equal pay for equal work—those are the pillars of a fair society that apparently the member opposite is not interested in supporting.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Supplementary.

Mr. Victor Fedeli: Back to the Premier: Well, again, none of that is agreed to by the Auditor General or the Financial Accountability Officer. By almost every metric, this government has underperformed since the 2017 budget. Revenues are up only $115 million—nowhere close to their forecast—yet expenses are up $215 million since the budget. Personal income tax and health premium revenue is down $1.8 billion since the budget, yet they still say that revenue will increase by $10 billion this year.

We have rosy, glowing predictions from the government, but in reality the numbers just aren't there. The truth does not fit with their narrative.

Why does it always take the Auditor General, the Financial Accountability Officer or the OPP to get to the truth in this government?

Hon. Kathleen O. Wynne: The reality is that corporate revenue is up. The fact is that our economic growth is leading the country.

Yesterday, this party across the floor promised that they would roll back the $15 minimum wage. They would kick the increase to $15 over a four-year phase-in—

Interjections.

The Speaker (Hon. Dave Levac): Your decision is made. We're in warnings.

Hon. Kathleen O. Wynne: They would kick the increase to $15 an hour down to a four-year phase-in, which is tantamount to denying that increase. It is tantamount to not allowing people to catch up. The fact is that, although the province is doing well, not everyone in the province—

Interjections.

The Speaker (Hon. Dave Levac): The member from Renfrew–Nipissing–Pembroke and the member from Leeds–Grenville are warned. If you don't get the message, I'll give it to you.

Final supplementary.

Mr. Victor Fedeli: Back to the Premier: The experts have been clear that the government has been using one-time revenue to fluff up their budget numbers.

Money from the Hydro One sale? That's over now. From land transfer tax? The housing market is cooling. From federal transfers? That fluctuates every year.

Now, without these massive, one-time revenues, the government still says annual revenue growth will be 4% over the next four years, but the Financial Accountability Officer says it will average just 3%. It doesn't sound like much, but those are billions of dollars apart. None of what they're saying adds up whatsoever.

Speaker, if the independent legislative experts don't believe this government's numbers, why should any Ontario families?

Hon. Kathleen O. Wynne: Minister of Finance.

Hon. Charles Sousa: The member opposite maybe didn't read this fall economic statement, because we revised our numbers from 2.3% real GDP to 2.8% real GDP, which is lower than independent economists predict for the continuing growth of our economy and for the province of Ontario. In fact, HST has gone up, showing consumer confidence. Business investment is going up, showing business confidence, Mr. Speaker. Our accumulated deficit over the past 25 years is lower today than it has ever been, and our debt-to-GDP is improving.

The member opposite is making reference, but he is not acknowledging that the independent economists, the independent review and the investors are showing confidence in our province because we are winning and we are supporting opportunity at the same time, creating fairness so that every individual in this province does get a fair wage and businesses get their fair share. We are all improving our economy and we are working together, Mr. Speaker.

Ontario Hansard - 15-November2017
GOVERNMENT FISCAL POLICIES (GOVERNMENT RECORD)

Mr. Shafiq Qaadri: My question is to the Minister of Finance. All Ontarians, I think, can be encouraged by yesterday's release of the fall economic statement, which demonstrates that our government is working to create fairness and opportunity during this period of rapid economic change.

It's also clear that our path to balance is on track. Most importantly, unlike the approach of other parties, this is not being achieved by slashing and burning the services that people depend on, and it's being supported by a thriving economy.

As you will know, Speaker, businesses have created more than 800,000 net new jobs since the 2008 recession, and 300,000 jobs are expected by 2020. Real GDP is now forecast to grow at a healthy 2.8%, a very substantial increase from the previous budget projection.

A balanced budget allows for more money to invest in things that matter to everyone in Ontario: schools, hospitals, roads, bridges and more.

To the minister: Est-ce que vous pouvez élaborer sur le travail et les mesures que notre gouvernement fait?

Hon. Charles Sousa: Thank you for the question from the member from Etobicoke North. Our government is delivering a balanced budget. We've beaten our fiscal targets for the eighth year in a row. Net debt to GDP has improved to 37.3%. Our strengthening investments continue to attract private and foreign direct investment.

The numbers show that our policies are working. Real GDP growth is above projections. In fact, over the last three years, Ontario's real GDP growth exceeds that of all G7 countries. Our businesses have created over 800,000 net new jobs, as indicated, bringing our unemployment rate below the national average for 31 straight months. We've managed growth in program spending, making Ontario the leanest government in Canada.

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Mr. Speaker, Ontario has come out of the recession stronger but we know there is more to do. We want to ensure everyone in Ontario benefits from our strong economy. That's why we're taking steps to support workers and their families to create more fairness and opportunity for all hard-working Ontarians.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Shafiq Qaadri: Thank you, Minister. I think it's clear that our growing economy, together

with a balanced budget, is creating more and more opportunities for businesses and individuals across Ontario.

On the ground in my own riding of Etobicoke North, this is reflected, for example, by the $400-million expansion of Etobicoke General Hospital which, I would respectfully remind the House, is also part of the William Osler system.

We know, Speaker, that policies which build our people up are what matter most to Ontarians. That's why I'm proud to stand with a party that's increasing the minimum wage to $15 an hour, coming up shortly. We know that hard-working people are struggling to put food on their tables and they cannot wait for years for this pay increase.

We know that students—over 200,000 of them—will be benefiting from free tuition.

And Speaker, as a doctor, I have to support OHIP+, the greatest expansion of pharmacare in a generation, as was mentioned.

Speaker, we know our historical investments to infrastructure—$190 billion over 13 years—will spur economic growth. Can the minister please detail more of these initiatives?

Hon. Charles Sousa: Thank you again for the question. We're building a stronger, fairer Ontario. We're designating another $155 million in supports for our seniors strategy, so our seniors can live independent, healthy and active lives. We're helping to build more competitiveness in our business environment by providing another $500 million in new initiatives for small business. We're cutting WSIB costs and reducing red tape further. It includes more incentives to businesses to hire young people—$124 million over three years—as well as new grants to encourage employers to hire apprentices, up to $19,000 per apprentice. Mr. Speaker, we're creating the third pillar to our post-secondary education system to support our indigenous institutes. We've also announced $5 million in extra dollars for the north through our Ontario Municipal Partnership Fund. This is our balanced approach to create fairness and opportunity for the people of Ontario.

Ontario Hansard - 27-November2017
GOVERNMENT FISCAL POLICIES

Mr. Victor Fedeli: My question is for the Minister of Finance. Life is unaffordable in Ontario. Families are working harder, paying more and getting less than in any other province in the country. That's why the government needs to do more to alleviate the tax burden on the middle class.

This weekend, the Ontario PC Party and our leader, Patrick Brown, laid out our plan: the People's Guarantee. One part of that guarantee was a 22.5% cut to income taxes for the middle class—

Interjections.

The Speaker (Hon. Dave Levac): Stop the clock. So that all members realize, I have not changed the direction that I'm trying to bring our House to. Today is no different. If I'm getting the signals that that is going to change, I will start with warnings very quickly, just to set the tone.

Please carry on.

Mr. Victor Fedeli: Mr. Speaker, an Ontario PC government would bring real change for middle-class families. Why won't this Liberal government?

Hon. Charles Sousa: Mr. Speaker, it's a real honour to be able to stand before you and the rest of this House to acknowledge the tremendous work that Ontarians have done to bring our economy to where it is today, and recognizing that it has only been possible because of the stimulus and the balanced approach that we've taken to ensure that we recover from this global economic downturn that has been sustained for a long period of time—and, yet, Ontario leads Canada, it leads the G7, and for that matter, Mr. Speaker, we are continuing to create more jobs than ever before.

The member opposite, the critic, and the Leader of the Opposition have long advocated for balanced budgets, and Mr. Speaker, the largest deficit in Canadian history was voted on by the Leader of the Opposition—$16 billion. That is their plan. They're taking the province into deficit going forward.

The Speaker (Hon. Dave Levac): Supplementary?

Mr. Victor Fedeli: I'll send a copy of the plan over to you and you can have a real look at it.

Ontario used to be a province where if you worked hard, spent wisely and saved diligently, a family could get ahead. They could build a better future for their children. But that's not the case

in Ontario any longer, Speaker. Families are struggling and some are falling behind. They need help. That's why we know Ontario families need lower taxes—

Interjections.

The Speaker (Hon. Dave Levac): Excuse me. Stop the clock. We're in warnings.

Carry on.

Mr. Victor Fedeli: —22.5% lower income taxes for middle-class families, Speaker, would make a significant difference in the lives of those trying to get ahead. But we can't trust the Liberals to make life more affordable. Why should anyone in Ontario trust them?

Hon. Charles Sousa: Mr. Speaker, this government, under the leadership of Premier Kathleen Wynne, has instituted progressive measures while at the same time managing our expenses. We are providing free tuition for students, free pharmacare for everyone under the age of 25 and 100,000 more child care spaces.

The member opposite is advocating for cuts—cuts to education and cuts to health care, Mr. Speaker; that is their plan. We on this side of the House will take a balanced approach to ensure that we can afford the things that matter to Ontarians, while that side is cutting revenues and cutting across the board the very services that matter to us. We on this side of the House will always look after the people of Ontario.

The Speaker (Hon. Dave Levac): Final supplementary.

Mr. Victor Fedeli: Back to the minister: That is a complete fabrication, Speaker—

Interjections.

The Speaker (Hon. Dave Levac): The member will withdraw.

Mr. Victor Fedeli: Withdraw.

For 14 years, we have seen Liberal insiders get rich at the expense of the people of Ontario. While the government lined the pockets of high-priced executives, middle-class families struggled. It's not their imagination. Middle-class wages have stagnated for 14 years while Liberal taxes and fees continued to rise. Thanks to this government, middle-class Ontario is poorer than the average Canadian.

So, Mr. Speaker, we have to ask: When did the Liberals decide they were the government for the insiders and no longer for the people?

Hon. Charles Sousa: Page 76 of their plan made it very clear, Mr. Speaker: Over $12 billion is what's being cut across the board from the people of Ontario. So the question becomes, what are you going to cut?

Furthermore, they're making decisions only on election cycles. They don't want to go long-term or look beyond. We've got to have a long-term vision on things that matter—

Interjections.

The Speaker (Hon. Dave Levac): You may choose your last comment that could get you the warning. When I stand, you stop.

Finish, please.

Hon. Charles Sousa: We've created over 800,000 net new jobs, primarily in the private sector. The economy is growing. I recognize that many across the province don't feel the same benefit as others with our prosperity. We need to do better, and I said so in the fall economic statement. I hope the member opposite will approve and support the fall economic statement. That's a real plan for the real people of this province to make sure they get real prosperity going forward.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Interjections.

The Speaker (Hon. Dave Levac): You can take the risk, if you'd like to keep talking.

New question.

Ontario Hansard - 27-November2017
GOVERNMENT FISCAL POLICIES

Mr. Victor Fedeli: My question is for the Minister of Finance. First they disparage the Auditor General, then they disparage the Financial Accountability Officer, and now they disparage Kevin Page, the former budget officer.

In the 1990s, Ontario's average income was 10% above the national average. But in 2012, income in Ontario fell below the national average for the first time ever. In fact, between 2005 and 2015, Ontario families saw the slowest rate of income growth of any province in Canada. Once the envy of the country, middle-class Ontarians now struggle. They work harder, pay more and get less under this Liberal government.

Why has the Liberal government spent 14 years allowing middle-class families to struggle to keep their heads above water?

Hon. Charles Sousa: That is rich coming from that side of the House. We're providing for an increase in the minimum wage that they are now denying the people of Ontario. Stand up and fight for the people of Ontario. We have a 5.9% unemployment rate, the lowest it has been, and it has been below the national average for 31 months.

We will continually support everyone in this province for the sake of the families of this province. They're putting at risk their livelihood. They are instituting a much more expensive carbon tax to the people of Ontario. We recognize that that will put us in harm's way. We need to be competitive for businesses and competitive for the people of Ontario, where everyone should share in that growth. That is why we are increasing minimum wage to $15, and they are not.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the minister: This government brought in some of the largest tax increases in Ontario's history. Between the health tax, the HST and other fees, the Liberals have made life unaffordable.

Every day, families email and call our offices. They share their stories and tell us they just don't have any money left. That is why we can't trust this Liberal government. That is why a PC government will reduce income taxes for the middle class, that's why a PC government will increase the Ontario Sales Tax Credit, and that's why an Ontario PC government will make life more affordable for Ontario families. That's what is fair. Why won't the Liberals make life affordable for Ontario families?

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Hon. Charles Sousa: We know their plan in the past and we hear it now going forward. It's not much of a plan because what they're going to do in order to achieve deficits, no less—they're promoting deficit spending going forward. We are going to balance this year, next year and the year after that. In order for them to achieve even a little bit of that deficit that they're proposing, they're going to go back to firing nurses, closing hospitals, reducing funding for health care—

Interjections.

The Speaker (Hon. Dave Levac): Finish, please.

Hon. Charles Sousa: We have been disciplined and determined in our plan to recover and to plan to come to balance, and it's being achieved. The members opposite are going to put our economy in harm's way by taking the excessive actions that they're proposing, which will in essence put us at a disadvantage over other jurisdictions around the world.

We will continue to be free traders and continue to support Ontario.

The Speaker (Hon. Dave Levac): Final supplementary.

Mr. Victor Fedeli: Back to the minister: This is about trust. This is about looking out for families across Ontario. This is about making life more affordable. That is why we need to lower taxes in Ontario after years of Liberals raiding middle-class families to pay their Liberal insiders. If you want to know what the Liberals will do, just look at what they've done for the last 14 years. The Ontario PCs will make life more affordable. Why do the Liberals continue to make it harder for Ontario families to succeed?

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please. Thank you.

Minister.

Hon. Charles Sousa: It is all about trust, and I can tell you this: We can trust this government to continue to fight for the people of Ontario while the opposition, you can trust them to cut the very measures that matter to Ontarians.

I can tell you this: When we provided free pharmacare for everyone under the age of 25, they voted against that. They'll take that away. When we were talking about providing free tuition for students so they can get a better start in life, they voted against that as well. That's what you can trust from that side of the House.

We can also trust that when the Leader of the Opposition was in power federally, he voted in the largest deficit in our history. And the largest debt increase in Canadian history came from the Leader of the Opposition. The critic now stands here and suggests that somehow cutting revenues as well as—Mr. Speaker, cutting revenues and going into deficit spending is not what's in the best interest of the people of Ontario.

We need to provide programs and services that—

The Speaker (Hon. Dave Levac): Thank you.

Ontario Hansard - 12-December2017
FISCAL ACCOUNTABILITY (GOVERNMENT ACCOUNTABILITY)

Mr. Victor Fedeli: Good morning, Speaker. My question is for the Minister of Finance. The Financial Accountability Office showed us that Ontario is working with three sets of books. That is simply ridiculous. We need one set of books, one true set of numbers, to guide us.

1110

There's a way to do this, and that's for the government to follow the law, pass a regulation and release their pre-election finance report. The Auditor General said, "It is in the public's interest for the government to give us a pre-election report to examine as soon as possible, with sufficient time to do our work." This will give us one number, one set of books.

Will the government tell us when they will be bringing the regulation forward and when they will present the auditor with their pre-election finance report?

Hon. Charles Sousa: The reason there is a pre-election report is because this government mandated it, because of the elimination—and the fact that they held and hid a deficit throughout their proposals when they were coming into a budget.

We are balancing the books. I thank the FAO for the work they're doing around the sensitivity. He acknowledges that our economy is growing, that we have taken steps to balance the budget. In fact, public accounts, which is the one that matters most as to what has happened to this day, illustrates that we beat again our targets last year by over $3 billion to under $0.1 billion in terms of our actual results.

I acknowledge the work that's being done by the FAO, and I recognize that the member opposite, with his own promises, is unable to keep them because his own analysis states that they are not going to be able to achieve it. I will say more in the supplementary.

The Speaker (Hon. Dave Levac): Supplementary.

Mr. Victor Fedeli: Back to the minister: Families need to be able to trust what the government says about our finances. They deserve a true fiscal picture. That's only fair.

But the Auditor General has refused to sign off on Ontario's books multiple times under this Liberal government. The auditor has one more opportunity, and that's to review a pre-election finance report. First, the government must pass a regulation confirming it will release a pre-election report by a committed deadline. We want one set of books so we can truly assess the damage that the Liberals have done to Ontario.

Speaker, I'll ask again, will the government tell us when they will be bringing the regulation forward and when they will present the auditor with their pre-election finance report?

Hon. Charles Sousa: We are using the accounting principles that have been provided over the last 16 years. In fact, an independent review of the government's pension accounting and other things that was commissioned illustrated—with an expert panel concluding—that the province's accounting treatments are correct. I'll leave those disputes to the accountants.

But I'll say this, Mr. Speaker. Kevin Page, the individual who assessed the People's Guarantee, says the following:

"Re: Assessing the reasonableness of the estimates of the fiscal plan underlying the 2018 election platform of the Progressive Conservative Party....

"We caution readers that the provision of an opinion on the reasonableness of the estimates underlying the fiscal plan includes the reliance on third parties for information."

He says that they are "not currently in a position to pronounce" on those expectations, saying, "We look forward to seeing more detailed plans in the future."

Their numbers are based on ours, and they are estimating a deficit with what we're saying is—

The Speaker (Hon. Dave Levac): Thank you.

New question.

Ontario Hansard - 14-December2017
GOVERNMENT'S RECORD

Mr. Steve Clark: My question is to the Premier.

The voters are skeptical; that is no lie,

But we have to reflect and ask ourselves why.

From this side of the aisle, it's plain to see.

Premier, will you be accountable and sign the People's Guarantee?

Hon. Kathleen O. Wynne: Minister of Economic Development and Growth.

Hon. Brad Duguid: 'Tis the last question period

before Christmas

And I must say, with much passion,

We will bring in a minimum wage of $15,

With or without your attention.

We will lower energy rates,

We will create jobs as well.

This Christmas will be great for Ontario,

We're working to make things swell.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

Supplementary? The member from Bruce–Grey–Owen Sound.

Mr. Bill Walker: To the Premier:

In question period, politicians, they go back and forth

When people want change for taxes

and support for the north.

So I'll ask again, because no answer was found:

Will you sign the People's Guarantee

when I sit down?

Hon. Brad Duguid: To the Minister of Finance.

Hon. Charles Sousa: The halls of the Legislature are haunted by the ghosts of Christmas past. They bring to us today the likeness of the miser Ebenezer Scrooge from across the aisle: they who have wanted to make cuts to supporting our families, to deny the gifts of our province's prosperity, to share for all.

On this side of the aisle, we thank the Premier and the jolly red grandmothers of Ontario, who, like Santa Claus, care for all of our children.

Interjections.

The Speaker (Hon. Dave Levac): Be seated, please.

New question.

FOIs/OPQs

Overview	Key Issues	Key Dates
OPQ 677 - MPP Fedeli Would the Minister of Finance state whether he accepts the Financial Accountability Office's 2017 Fall Economic Outlook assessment of the state of Ontario's fiscal position, given that the FAO stated Ministry of Finance bureaucrats did not disagree with any of the information in their report. (Tabled February 20, 2018) ***Proposed response with Minister's Office**	**Financial Accountability Office's 2017 Fall Economic Outlook**	OPQ House due date April 16
OPQ 636 - MPP Fedeli Would the Minister of Finance state on what page(s) in the Fall Economic Statement he has made corrections to reflect the concerns of the Auditor General and the Financial Accountability Officer about the validity of the province's stated fiscal position. (Tabled December 04, 2017) ***Proposed response with Minister's Office**	**Fiscal Position** **Financial Accountability Office & Auditor General reports**	OPQ House due date March 26

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Sessional Paper No. 677

677. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state whether he accepts the Financial Accountability Office's 2017 Fall Economic Outlook assessment of the state of Ontario's fiscal position, given that the FAO stated Ministry of Finance bureaucrats did not disagree with any of the information in their report. (Tabled February 20, 2018)

Response:

The government values the Financial Accountability Office's independent assessment and projections of the province's fiscal plan.

The government is committed to a responsible fiscal plan that provides the conditions for all Ontarians to thrive. As outlined in the *2017 Ontario Economic Outlook and Fiscal Review* (FES), the government is projecting a balanced budget for 2017–18, consistent with the FAO's projection for this year.

In addition, The FAO's real GDP projections are aligned with the *2017 FES* over the 2017 to 2020 period. The government's economic projections are informed through regular consultations with private sector economists. In fact, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecasts, in keeping with prudent fiscal planning.

The FAO's outlook continues to incorporate the Auditor General's accounting interpretation for pension assets and the Fair Hydro Plan, which differs from the government's accounting treatment. However, the government prepares its financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB).

- In the *2016-17 Public Accounts of Ontario*, this included Public Sector Accounting Standards (PSAS) for pension asset accounting that have been used since 2001.

- The government's accounting presentation of the Fair Hydro Plan is appropriate under Canadian PSAS, and is in accordance with guidance provided for rate regulated entities under U.S. Generally Accepted Accounting Principles (GAAP).

We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

Sincerely,

Charles Sousa
Minister of Finance

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Sessional Paper No. 636

636. Mr. Fedeli — Enquiry of the Ministry — Would the Minister of Finance state on what page(s) in the Fall Economic Statement he has made corrections to reflect the concerns of the Auditor General and the Financial Accountability Officer about the validity of the province's stated fiscal position. (Tabled December 04, 2017)

Response:

The *2017 Ontario Economic Outlook and Fiscal Review* (FES) provides an update to the fiscal and economic plan presented in the *2017 Ontario Budget*, and continues to demonstrate the government's approach to responsible fiscal management.

The Auditor General's Office and the Financial Accountability Office have raised two areas of concern with respect to the government's accounting: pension assets and the Fair Hydro Plan.

The government prepares its financial statements in accordance with the accounting standards issued by the Public Sector Accounting Board (PSAB). In the 2016-17 Public Accounts of Ontario, this included Public Sector Accounting Standards (PSAS) for pension asset accounting that have been used since 2001.

This is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'). The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, was established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian PSAS, even though the Province did not have a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded; and

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or the Ontario Public Service Employees Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

Similarly, with the support of external advisors, it was determined that the accounting presentation for the Fair Hydro Plan – according to guidance provided for rate regulated entities under US Generally Accepted Accounting Principles (GAAP) – is appropriate under Canadian PSAS.

For the current status of the Province's fiscal plan, please refer to *Chapter 3, Section C: Fiscal Outlook* of the 2017 FES.

Sincerely,

Charles Sousa
Minister of Finance

Supporting Materials: House Book Notes

January 31, 2018

ONTARIO'S FISCAL OUTLOOK

What is Ontario's Fiscal Outlook?

SUGGESTED RESPONSE

- **Ontario is delivering on its commitment to balance the budget in a fair and responsible way — a plan that was first introduced in the *2010 Budget*.**
  - **Over the medium term, revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20, while total expense is projected to increase from $141.7 billion to $157.4 billion over the same period.**
- **The Public Accounts of Ontario 2016–2017 reported that the 2016–17 deficit was $1.0 billion. This result is $3.3 billion lower than projected in the *2016 Budget*.**
  - **This marks the eighth year in a row that Ontario has beaten its deficit target.**
- **Investments have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global environment. Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries. Exports are up, businesses are hiring more workers and household incomes are rising.**
- **A growing economy, together with a balanced budget, is creating more opportunities for individuals and businesses in Ontario to share in the benefits resulting from the province's return to economic strength.**
- **Since peaking in 2014–15 at 39.3 per cent, the net debt-to-GDP ratio has been on a declining track as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.**
  - **The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

February 1, 2018

BORROWING AND DEBT

What is the status of Ontario's borrowing and debt management plan?

SUGGESTED RESPONSE

Debt-to-GDP

- **The first very important step in reducing debt is to balance the budget. Balanced budgets from 2017–18 onwards will ensure that the increase in net debt is limited to net investments in capital assets.**

- **The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been on a declining trend since then. It is projected to be 37.3 per cent at the end of 2017–18, 0.2 per cent lower than was forecast in the *2017 Budget*. This ratio is projected to continue to decline to 37.1 per cent in 2018–19.**

- **We are making the biggest investment in public infrastructure in Ontario's history. We have a plan to invest about $190 billion over 13 years, starting in 2014–15. These investments will not only create jobs, but will also contribute to the economy growing at a faster rate than the net debt.**

- **The positive impact of capital investments on the Province's economy was confirmed by the Centre for Spatial Economics which reported recently that, over the long term, GDP in Ontario increases by $6 for every dollar of public infrastructure spending.**

- **The government is setting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.**

- **In June 2016, the International Monetary Fund (IMF) released a report recommending that Canadian "fiscal policy should be pro-growth." Christine Lagarde, Managing Director (IMF), also expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element of the strategy.**

Borrowing Program

- **As of January 31, 2018, the Province has successfully completed its borrowing requirement of $25.8 billion for 2017–18. To date, the Province**

has borrowed $28.6 billion, including $2.8 billion in pre-borrowing for 2018–19.

- **Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections.**

  - **Interest on debt to revenue is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20. The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period to 2019–20.**

- **Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs. As of January 31, 2018, the average term for new borrowing in 2017–18 was 13.7 years compared to 8.1 years in 2009–10.**

- **Going back to the beginning of fiscal 2010–11, we have issued $70.1 billion of bonds with maturities longer than 30 years to lock in low rates. As interest rates begin to rise, the Province will assess whether it remains cost-effective over the long term to continue to extend the term of its debt.**

February 6, 2018

ONTARIO'S CREDIT RATINGS

What are the credit rating agencies' views on Ontario?

SUGGESTED RESPONSE

- **All four rating agencies have a stable outlook on Ontario's credit ratings. This reflects rating agencies' confidence in our government's fiscal plan and its ability to grow Ontario's economy and create jobs for Ontarians.**

Quotes:

- **"The outlook is stable. This reflects our forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon." (Moody's, February 2 2018)**

- **"The ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden." (DBRS, June 28, 2017)**

- **"S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget." (S&P, June 15, 2017)**

- **"The return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term, which will slowly rebuild flexibility within the rating." (DBRS, April 28, 2017).**

Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

BACKGROUND

S&P:

Why is S&P's rating for Quebec higher than Ontario?

Although Ontario's budgetary performance has improved, S&P believes that it will continue to lag that of Quebec. S&P gives a lot of credit to Quebec for the Generations Fund, and the implicit $2-$3 billion per year surplus that it results in.

- Quebec is expected to record an operating surplus of close to 9% of revenues on average over 2015-16 to 2019-20, compared to close to 4% for Ontario. In addition, S&P expects Quebec to record after-capital surpluses of over 1.0% of total revenues over 2015-16 to 2019-20, compared to an after-capital deficit of 3.1% for Ontario over the same period.

S&P believes that Ontario's credit profile is strengthening however, they will need to see a track record of consistent operating surpluses and balanced or near-balanced after-capital results coupled with continuing declines in direct and tax-supported debt burdens that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action on the province.

- Quebec's tax-supported debt as a share of revenues is expected to average 217% over the 2015-16 to 2019-20 period, while Ontario's tax-supported debt is expected to average 246% over the same period.

S&P's Report on Ontario – June 15, 2017

S&P believes that Ontario's credit profile is strengthening however, they will need to see a sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action.

S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing the Province to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget.

The stable outlook reflects expectations that within the next two years the province will sustain a more balanced budgetary performance, including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low

contingent liabilities. The ratings also reflect S&P's view of the province's weak budgetary performances and very high debt burden.

S&P Lowers Ontario's Short-term Rating to A-1 from A-1+ – June 15, 2017

S&P lowered Ontario's short-term rating to A-1 from A-1+reflecting their revised methodology". This is the highest short-term rating for an issuer with an A+ long-term rating, unless the issuer's liquidity is viewed as exceptional. Ontario's short-term borrowing costs are unaffected by this change as this simply reflects a change in their methodology rather than any change in the quality of Ontario's credit.

S&P Mapping of Short-Term Ratings to Long-Term Ratings

Long-Term Rating	Short-Term Rating
AAA, AA+, AA, AA-	A-1+
A+, A	A-1
A-, BBB+, BBB	A-2
BBB-	A-3
BB+, BB, BB-, B+, B, B-	B
CCC+, CCC, CCC-, CC, C	C

Moody's:

Moody's Report on Ontario – February 2018

Moody's updated their Credit Opinion for Ontario following the release of their rating on the Fair Hydro Trust (FHT) on January 22nd. Moody's is now including debt issued by the Fair Hydro Trust in their key debt measure for Ontario. "While FHT, which was created at the behest of the province, is designed to be self-supporting (pay principle and interest through revenue generation) on a life-cycle basis, it is not currently as it faces a moratorium on revenue generation. Further, FHT carries the possibility that a provincial guarantee of its debt may be invoked in certain prescribed circumstances."

They do note that the total financing required is "nonetheless fairly negligible given the province's high net direct and indirect debt level." They also note that they will review this treatment once revenues from the Clean Energy Adjustment charge is added to consumers' electricity bills in 2021.

The stable outlook reflects Moody's forecast that the debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon.

Moody's noted the following credit strengths:

- Institutional framework provides significant fiscal policy flexibility

- Prudent debt management waith a focus on market access and debt affordability
- Revenue supported by a diversified economy with a broad and productive tax base

Moody's highlighted a number of credit challenges:

- High debt burden and debt will continue to increase despite balanced budget projections
- Elevated interest expense, with higher rates anticipated
- Rising expenditures risk to balanced fiscal targets

Factors that could lead to a downgrade:

A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

DBRS:

DBRS 2018 Canadian Provincial Government Outlook – November 17, 2017

DBRS notes that most provincial ratings are expected to remain relatively stable.

Economic fundamentals have exceeded expectations in 2016 and 2017, enabling most provinces to finish the year better than expected while increasing spending or reducing taxes. Growth will likely slow over the medium term as cyclical influences diminish.

Ontario's credit profile is improving. However, the province has only recently balanced its budget, debt is significantly higher than it was before the recession and the pace of debt-to-GDP reduction is gradual. In past recessions, the policy response and economic contraction led to significant increases in the debt-to-GDP ratio. A similar economic impact and policy response could put downward pressure on the rating.

DBRS notes that Ontario intends to maintain balanced budgets, with rising revenues being directed into program spending. Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio. DBRS expects debt to decrease to 40.0% of GDP over the medium term.

The ratings for Ontario and New Brunswick appear most at risk of a negative rating action if the economy were to face a severe recession, while a downturn may accelerate the pace of a rating change in Alberta.

DBRS Report on Ontario – June 28, 2017

DBRS notes that the ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden.

The better-than-expected result stemmed from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

Debt growth has slowed with the return to balance. The DBRS adjusted debt-to-GDP ratio, which is currently at 43.3%, is projected to approach 40.0% of GDP over the medium term.

DBRS expects the ratings to remain stable. Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.

A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies. In contrast, an upgrade would require a significant reduction in the provincial debt burden.

DBRS Commentary on Ontario's Plan to Reduce Electricity Prices – March 2017

DBRS views the proposed changes as credit neutral, since the Province has the ability to absorb the fiscal impact while still restoring budgetary balance in 2017–2018.

The Province will recover the debt and financing costs associated with reducing the Global Adjustment through future electricity rates. Provided the debt continues to be fully supported by the electricity rate base, DBRS will treat it as self-supported and exclude it from tax-supported debt. DBRS will re-evaluate once more information becomes available.

DBRS Report – October 2016

DBRS released a report stating that spending on infrastructure "can result in higher nominal GDP that can be large enough to result in a declining government debt ratio." According to DBRS, "historically low interest rates are providing a window for governments to lock in low rates on public investment projects."

Fitch:

Fitch Report on Ontario – June 2017

The tabled budget for fiscal 2018 completes the province's plan to eliminate its annual budget deficits by fiscal 2018. Despite some variations to the plan announced in the 2010 budget, the province has remained committed to this fiscal goal.

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives. Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Confirmed February 2, 2018
DBRS	AA (low)	R-1 (mid)	Confirmed June 28, 2017
Fitch	AA-	F1+	Confirmed June 20, 2017
S&P	A+	A-1	Long-term rating confirmed; short-term rating lowered June 15, 2017

Supporting Materials: Other Considerations

MEDIA EVENT: AUDITOR GENERAL BONNIE LYSYK ANSWERS QUESTIONS FOLLOWING RELEASE OF HER ANNUAL REPORT

Date / Time / Location:

December 6, 2017 / Noon / Queen's Park Media Studio

Speaker:

Ontario Auditor General Bonnie Lysyk

Media Attendance:

Print – 11 TV – 4 Radio –

Media Outlets:

Benzie – Star; Ferguson – Star; Boyle – Star; Giovanetti – Globe; Artuso – Sun; Smith Cross – QP Briefing; Hains – QP Briefing; Reynolds – QP Briefing; Smith – QP Today; Crawley - CBC Radio/TV; Carter – Global; Tumelty - City TV; Morissette – TFO; McGrath – TVO.

Statement:

Hello, everyone. I'm Bonnie Lysyk and I'm the Auditor General of Ontario. And, thank you for the opportunity to discuss our 2017 Annual Report with you today. This report, my 5th, contains fourteen Value For Money audits, which we call VFMs for short. Seven of them are in the health and education sectors that together account for more than 2/3 of all government spending. This report also provides several important cautions about recent changes to the government's financial reporting processes. I'll have more to say on that in a few minutes. But I want to start with the VFMs. Each year, we look for common themes that run through all of our audits. One that emerges year after year is that the decision makers do not always have all of the information needed to make the most appropriate decisions. A related theme in many of this year's VFMs is the need for governments to improve longer-term planning that supports timely, and informed decision making and oversight. This will be become readily apparent as I summarize the VFMs.

Our audit of emergency management in Ontario found that the last provincial risk assessment was based on emergencies experienced in Ontario up to 2009. That means the current provincial emergency management program has not planned for more recent and evolving threats related to climate change, cyber-attacks, and terrorism. In addition, the Provincial Emergency Response Plan and the Provincial Nuclear Response Plan have not been updated since 2008 and 2009 respectively.

Our audit of the IESOs market oversight and cyber security found that the Ontario Energy Board's market surveillance panel has said in thirty reports since 2002 that Ontario's Electricity Market is vulnerable to manipulation because of design weaknesses and flaws. Some market participants have exploited these flaws, resulting in millions of dollars of additional costs for rate payers.

Our audit of cancer treatment services, found that Ontarians needs were not fully being met in the areas of radiation treatment, head scans, and wait times for some urgent cancer surgeries and diagnostic services. In addition, the province's limited capacity to preform stem cell transplants was first identified as an issue in 2009. In the next six years, this issue led to excessive wait times and costly out of country procedures. Only in 2016/17 did the Ministry of Health and Long-term Care approve capital projects to expand stem cell transplants in Ontario. Earlier planning could have mitigated many of those difficulties.

Our audit of laboratory services in the health sector found that the Ministry of Health and Long-Term Care will in 2017/18 update the prices it pays private sector community labs for medical tests. Nearly twenty years after its last major price update. The province could have saved $39 million in 2016 alone, if it had planned to implement the new prices just two years earlier.

Our audit of social and affordable housing found that Ontario's social housing wait list has increased 36% in the last 13 years. Challenges are also likely to increase, in the medium term, as contracts with housing

providers offering below market rents on 83,000 units have begun to expire and will continue to expire over the next 15 years. Despite this however, we found there is no provincial strategy in place to address Ontario's growing social housing wait list.

We noted during out audit of the assessment review board, that as of March 31, 2017 the board had a back log of more than 16,000 unresolved appeals, but put a plan in place to reduce that backlog. We also noted in our related audit of the Ontario Municipal board, that this board took between 10 months and almost seven years to close complex cases. However, this board had no plan to place -- no plan in place to handle the existing workloads and reduce the delays.

The Ministry of Agriculture, Food and Rural Affairs is responsible for four main farm support programs to help farmers manage production risk and price risks. However, our audit found that the ministry's existing programs would likely not be sufficient to provide support during extended market crises or natural disasters. And the Ministry had no explicit plan for dealing with such major issues.

Our audit of settlement and immigration programs in Ontario found that there was only limited coordination between the federal and provincial governments to avoid duplication of services. We estimated that in 2016-17, for example, about 30 million in Ontario-funded newcomer's services duplicated services there were already funded by the federal government.

We audited real estate services provided by Infrastructure Ontario. With respect to the province's real estate portfolio of about 4,800 buildings we noted that Ontario spent almost 19 million in 2016-17 to operate and maintain 812 vacant buildings across the province. The majority of these buildings had been vacant for an average of almost eight years.

The Ontario public drug programs provide drug coverage to 4 million people at an annual net cost of $4.9 billion. It found that the Ministry paid $271 million more than some Ontario hospitals in 2016-17 for the same drugs, indicating that opportunities exist for the province to get more discounts on generic drugs.

Ontario's 75 community health centres provide health care services and community programs to vulnerable populations and have the potential to help lessen the load on the overall health care system. However, the province lacks the critical information needed to determine whether the centers are cost effective in providing quality care.

Our audit of public health chronic disease prevention noted that Ontario has no overarching policy framework on chronic disease prevention to guide overall program planning development and continuing program evaluation. Plans are needed on how to collectively address important contributors to chronic disease, such as physical inactivity, poor diet, and heavy drinking.

We conducted audits of school boards management of financial and human resources and of the Ministry of Education's funding and oversight of school boards. The funding formula used by the Ministry to fund school boards has not been fully reviewed since 2002. As well, the ministry is not monitoring school boards use of special purpose funding to address such priorities as students at risk of low academic achievement. As a result the Ministry does not know whether this special purpose funding is meeting its stated priorities.

In addition to the VFM's, every annual report contains follow up work on audits of two years earlier. So this year we review the government's progress on the actions we recommended in our 2015 annual report. We found that government ministries and agencies made some progress toward implementing 71 per cent of the actions recommended in the 2015 annual report, but only 33 per cent of them were fully implemented. New this year we also looked at the progress made with recommendations from 2012, 2013 and 2014 and found by 2017 the rate for full implementation was only about 50 per cent for each of those years. However, on a positive note, we were told that work continues on implementing most of the remaining recommendations.

Turning to government advertising, in 2016-17 the government spent more than $58 million on advertising, the most since 2006-07, with just over 30 per cent of that for ads we believe had as their primary goal to foster a positive impression of the government party.

Now I mentioned earlier that government needs good information to make good decisions. All Ontarians also need good financial information on government finances to help them assess the government's performance. Financial numbers tell a story. If that story is not truthful, it risks breaking the trust that must exist between the government and the people. This year, our October 2017 Special Annual Report on the Government's Financing and Accounting Design Under the Fair Hydro Plan also raised a significant question of value for money. Why would the government create an unnecessary complex and opaque structure to borrow when it will cost more for Ontarians? The response we heard was that it is being done to keep ratepayer and taxpayer costs separate. This is not the full story. These costs can be kept separate without incurring the extra borrowing expenses that the Office of the Financial Accountability Officer estimated at about $4 billion. The government has challenged this figure but to my knowledge, it has offered no new estimate to update the $4-billion figure. We are aware that the government did it this way because of its desire to ensure this policy decision is not reflected in the annual deficit. In other words, by creating a needlessly complex financing structurer rather than using traditional borrowing methods at lower interest rates, the government consciously decided to incur more costs, potentially up to $4 billion more, to try to keep the bottom line and net debt impact of the Hydro Rate Reduction policy decision from showing up on the province's consolidated financial statements. This is by far the most serious value for money issue this year. Chapter 2 in our annual report highlights our concerns on this and other financial matters.

Again, on the issue of transparency, there is another potential issue on the horizon in the new year: the government's pre-election report on Ontario's finances and the subsequent review of it. The work can only take place when the government passes a regulation confirming that it will release a pre-election report by a deadline that it sets, and which has to be done prior to the voting day. The process went smoothly in the last two regularly scheduled elections, which were both held in October. The government issued its pre-election report after the spring budget, and we had about ten weeks to review it and issue a report. Ontarians then had more than three months to digest both documents before the election. With the next election being in June, not October, it is important to plan ahead to ensure there is sufficient time for my office to issue our review of the pre-election report and for Ontarians to absorb both reports before the election. I urge the government to keep the calendar in mind as it prepares its pre-election report.

Our mandate is to comment on areas where there are opportunities for improvement in the delivery of government and broader public sector programs and services. This is important to keep in mind in reading our reports because it is equally important not to forget that there are many things that are working well. For example, to name only a few from our audits this year: Most cancer patients are generally receiving treatment in a timely manner; the Ontario Public Drug Programs have provided timely access for eligible recipients when their prescribed drugs are listed on the formulary; accurate and timely lab results are being delivered to health care professionals; crop protection insurance is helping most crop farmers manage production losses; school boards are using their restricted funds for purposes intended and have been increasing their use of group purchasing arrangements to acquire goods and services which should result in cost savings.

In closing, I want to thank, on behalf of my team, the many people in the public and broader public sectors involved in our work, for their assistance and cooperation in the completion of this year's audits. I want to extend my personal thanks to my team, the various experts who shared with us their knowledge and advice, and to the private sector accounting firms that provided us with assistance during the past year. Now I would be happy to take your questions.

Q: Ferguson: What does this say about the IESO that gas fired plants were passing on the cost of items like parkas, coveralls, landscaping, staff car washes? How does	So I think the thing to keep in mind is that the responsibility for oversight is split between the IESO and the Ontario Energy Board. They have the Ontario Energy Board panel has for many years issued reports signaling that there were

that get through? And at what point does as an auditor, either in the private of public sector, would you advise to call the police about things like that?	problems with the two programs that we highlighted in our report and so they did provide that information. The IESO staff have conducted investigations there but unfortunately program changes were not made based on fully based on the recommendations of the OEB board. So we would say that, you know, that we think that there should have been more due consideration for those reports by the OEB panel. As well, the panel wanted more information to support the justification of those reports from IESO because IESO did indicate they needed those programs for liability purposes. That technical assessment has not been done yet. In terms of the next step no it's not for me to comment on, you know, anything to do with a referral anywhere, that's up to IESO and the OEB to determine, you know, how their concerns best get addressed.
Q: Ferguson: But how does those coveralls, parkas, landscaping? How does a $300,000 landscaping bill get passed on to ratepayers? Someone is not paying attention, right?	So the program was such that costs could be, bill could be submitted but without any support for the bills and the bills were being paid. And it wasn't until more detailed, more requests were made for detailed information that they became aware that there were costs behind that bill that probably shouldn't be reimbursed under those programs.
Q: Carter: Overall, if I am correct, (inaudible) of overpayment?	Well there's two different programs right? So there's one that is called a Standby Costs Recovery Program which is supposed to provide money for the plant and people that would be providing peak power. That one is a reimbursement for gas, maintenance and operating. The OEB panel said that when they started including maintenance and operating costs, that that was too generous and that it should only be gas. But the IESO continued reimbursing for all those costs. The OEB panel said perhaps that program is not necessary because only one per cent of power is provided under that of those funds.
Q: Carter: 30?	Yes.
Q: Carter: Just so we are clear here. People in this province are paying $30 million more a year for power than they should be?	So based on the OEB panel's report, they indicate that they do not believe that there is support for maintenance and operating costs to be covered under such a program. And that equates to about $30 million. So yes.
Q: Carter: Would you be shaking your hydro bill in anger then because of that?	I guess I would hope that this is addressed and that the IESO revisits this program as is recommended by the OEB panel to do.
Q: Giovanetti: (Inaudible) fully audit the IESO?	Yeah. In our report we have a recommendation that we comment on the financial statements of IESO. So we have already made the board of IESO aware of our intent under the Electricity Act to conduct the test audit, financial statement audit, of IESO. We'll do it in one of three ways. Either we will do it as the sole external auditor of IESO. We will either do it in partnership with their existing audit firm, which is possible you can do joint audits. If they indicate to us that they don't like either of those, under our legislation

	and the IESO's and the Electricity Act, we will still be conducting an audit at IESO.
Q: Giovanetti: Is it unprecedented for your office to do?	It probably is unprecedented to suggest that we go in now and audit IESO financial statements. We haven't audited those financial statements as an office before. But the Electricity Act provides us that opportunity.
Q: Benzie: Bonnie you mentioned the next election. Are you concerned that you are not going to get that pre-election report. Because by my calendar, the election is June 7th. Traditionally you have ten weeks before so you would need that pre-election report by March 29th to be able to give you time to sign off on all the books. Are you concerned that you are not, have you received indications that you are not going that?	I think the thing is, the earlier the better because then there is an opportunity to issue the report without it being too close to an election, that there is an opportunity for people to digest the report. I do not want to be caught up in any discussion that, you know, why are you issuing a report so close to the election? But I think our concern is we don't know yet. We do not know what is planned. We have had some general meetings with the controller's office but we have not had a definitive indication of whether or not the pre-election report will be provided to us and when. So I think we need more concrete communication this.
Q: Benzie: Speaking of the election, you expressed concern again about the books not being balanced in your view, according to the accounting practices, they are using different methods that you dispute. Are you concerned that the Progressive Conservative platform that was released two weeks ago, it uses those same government assumptions, the same government accounting, the same practices. So they are projecting a $2.8 billion deficit in their first year. Does that mean that their $2.8 billion deficit would actually be considerably higher, it would be possibly $7 billion, something like that, depending on the accounting?	You know what, I have not read the platform. My only comment would be that I guess when you think about it, you kind of have to use the same numbers, so that you would have an apples-to-apples public comparison. That is the only comment that I would have on it.
Q: Benzie: If you say there is a deficit now and the government says there is not one, if there is a $2.8 billion projected deficit based on the government's numbers, it is going to be therefore higher, right?	Yeah I think we think the impact for 17-18 will be about $4.5 billion.
Q: Benzie: $7.3 billion - my calculations with about $7.3 billion based on your numbers.	Yeah I'm not sure the seven but I'll say that we estimate that it would be the additional costs to the bottom line might be about $4.5 billion. We have our estimates in Chapter 2 of our report.
Q: Artuso: Signing off on the books pre-election - are these disputes over accounting practices likely to figure into part of that report?	You know I think our position on the on the accounting for the rate reduction and the pension assets is pretty understood and that will be factored into our review on a pre-election report depending on how, you know, how the government chooses to reflect that in the report.

Q: Crawley: How concerned are you about the apparent increase in sick days being taken by teachers and other education workers?	Yeah we noticed. I mean we looked at the school boards and we also looked at a survey that the school boards had done of 50 school boards. So we looked at the ones, you know four specific ones in the 50 and we did identify there that, you know, they've identified too that there is an increase. I think it's concerning in the sense that money that perhaps is intended to be used for programming has to cover other financial pressures associated with sick leave such as substitute teachers. So we do highlight that in the report.
Q: Crawley: And just to follow up on it, the government's ostensible reason for wanting to end that banking of sick days was that it saves money. So do you analyze - like, are we better off financially that teachers and other education workers are not allowed to bank that sick time and then cash it out at retirement.	Well I don't think we looked at it as a trade-off. I mean I think when you hear the term sick leave and sick days you assume that people are sick and so, you know, we're commenting that school boards perhaps need to put in place some sick leave policies and a program to manage the sick leave so that they can minimize the cost to the overall school board budgets. So you know, someone you would think - I would think as a taxpayer that in order to book a sick leave I need to be sick. So I think with the increase that we're seeing, we're just saying school boards you need to monitor this to make sure that a sick leave program is in place that is followed that would stand our scrutiny of it.
Q: Boyle: Auditor, of all the health audits that you did, what stands out to you the most?	I guess I didn't know, or I think a few of us in the office didn't know, what a CHC was, a community health center was, before we actually went in and looked at the community health center's and they're pretty -- it's pretty neat actually, the concept, right. I mean you walk in and you've got your primary care physician, you've got, you know, maybe a physiotherapist, maybe a social worker, maybe you have somebody to help you with housing, a lawyer there to help you with paperwork if you have, you know, if you're a vulnerable -- a member of a vulnerable population and you need assistance. So I think that was probably the most surprising to understand that that type of operation existed in Ontario. And you know we sat back and we said well that's interesting, I mean, has it been studied in terms of the broader application. So one of the things we recommended in the report is that the information around those units and how they operate needs to be looked at by government to see how it fits into the provision of primary care in Ontario. The CHC accumulate your own information. There is no OHIP billing. So in terms of understanding what services they are giving to their patients they might know that, but the province doesn't know it right now because they're on a separate IT platform. So I think, you know to answer your question that was probably one of the more most interesting, I think, points, you know, that how they operate in Ontario.
Q: Boyle: And cancer drugs outside of hospital, you're recommending that the province pay for those? And if so, how much would that cost?	I'm not recommending that they pay for it, more looking at it from the perspective of an equity in the sense that if the concept is to reduce costs of people going into the hospitals or getting treated in the hospitals, if you if you have to take a cancer drug you have to go into the hospital and get it done.

	It's covered, it's free. Right. But if you have to take a cancer drug and it's in a form that you can take at home you have to pay for it yourself. So, we just pointed that out that perhaps that's just something that can be looked at, you know, what's the trade-off in having people have to go and have it done in a hospital versus is it cheaper to support the cost of the drugs in somebody's -- you know, taking the drugs in their homes. So that's how we've looked at it versus saying, you know, there should be coverage of it.
Q: Reynolds: Auditor, with the emergency preparedness, I understand that there's ineffective oversight structures and there's a low priority status for the emergency management office, but how does that actually – to what extent does that actually put Ontario residents at risk?	So it was interesting looking at this because, I mean, it's one of those programs where I think you have to make a decision, you know, I mean there's a lot of programs that need money and you see the results of that money right away. And then there's something like emergency management until you need it you don't see the results of that. So we do comment in the report that over the last number of years there's been less attention given to that function. You know, a committee of cabinet hasn't met on it for many years. But we're not saying that if something happened in Ontario -- there'd be a response, there for sure would be a response, but we're commenting that perhaps the response could be more effective if there was more time spent on the planning -- planning before something happens. So for sure we're saying that you know there would be a response is it -- would it be the most cost effective, most efficient response. That's where we're saying we think more attention needs to be put on emergency management planning simulations, communication between the province and municipalities. That type of thing.
Q: Reynolds: Are Ontarians at risk though?	I wouldn't phrase it that way. I would say that this is -- this is a type of program that you make a choice as to the extent to which you invest in it for the future. So like I said, can there be a response if there is a forest fire? There'll be a response. Will it be the most effective? You know, a good one is the nuclear planning, that one is a plan for evacuation around a nuclear plant, you know, so until more time is spent doing maybe a simulation -- and I believe something is happening today around that, you don't know how responsive you're going to be. So -- but I wouldn't phrase it, I wouldn't phrase it the way you've phrased it.
Q. Artuso: You mentioned transparency as a priority. Should these [Inaudible] be recorded? I think they used to record what they call "Covariance Reports," what they are what they got the money for what they actually spent the money on. In this case, should you look at a province like Ontario, which has so many new immigrants coming in. ESL money is being diverted and at-risk money for kids is being diverted to other fiscal pressures on the school-boards. Should there be more clarity around what	So, there are funds that are restricted funds and in the audit we found that school boards are abiding by that. So, when they know something is restricted, they're definitely following the rules and they're using the money appropriately. Where we highlighted in the report, our questions were around more the funds that are designated for something. So I think we use the example of students that are not high achievers-low achievers. And the province said one of our priorities is to have those people become higher achievers. But when we looked at the money, it wasn't being spent for that, it was being spent for other purposes. And the reason being- it's not school board's fault, the province says we're going to

schoolboards spend their money on, and a comparison between what money was meant for and what it was actually spent on?	give you this money and you can do whatever you want with it, even though we have this provincial priority. We're just saying that if you designate money as a provincial priority, it kind of makes sense to taxpayers that we would assume you're following up to make sure that priority is going to be achieved somehow or what's the progress toward achieving that priority. So, that's more our issue, because it's not whether or not the school board spent the money right or wrong. They have the discretion. But it's the province designating it for something and labeling it that and then not following up that it's spent, that is our issue.
Q: Smith Cross: Can you elaborate on the 900 applicants on social housing waitlists that have homes?	Yeah, in our report we have a table and when we were looking at social housing, there were about 900 people on the waiting list that had self-declared that they owned properties. So, I think one of our points in that report is that eligibility criteria for social housing really is kind of locked into the income. Are you bringing in income, versus looking at other criteria when that assessment is being made. We also highlight if somebody said they can still stay on the list. If they own assets no matter what level of assets, as long as it's not generating income for them, they can stay on the list. They can say no to properties and stay on the list. Our point and all of that is that other provinces seem to have more criteria that they use to determine who should be on the list and it's more based on need. So somebody that's homeless, should they have more priority versus somebody died even though 40% of your income is going toward their rent, just because you're "first come first serve" on that list, should you be getting that house? They do have an exception though for situations with violence, housing those people gets priority.
Q: Smith Cross: [Inaudible] who own a home getting social housing when they get to the top of the list?	Our understanding is that that's the case. Having said that, the focus of our work was looking at who was on the waiting list.
Q: Tumelty: The strategy for sexual abuse was [inaudible] there's just under 190,000 people on the waiting list. There's [Inaudible] there is the real-estate, they have just under 190,000 homes. But the province has [Inaudible].	There is a requirement for about 187, 000 social housing properties to be available for households. And when we looked at it, we recognize that they are about 20,000 short in providing that and meeting that requirement. That's really the only requirement in Ontario or Canada for social housing. Really, there isn't a requirement for anybody to provide social housing -that is the only requirement, the firm requirement. So we did comment, some of the properties are just they were in poor condition. We had some people that perhaps don't require social housing that are still occupying those units. So they're not really social housing units per se. Some have converted from social housing I believe to market rate.
Q: Crawley: What's the impact of all these hundreds of government buildings sitting empty?	They do have a plan, Infrastructure Ontario has a plan to dispose of properties. It's just not, they are not disposing maybe as fast as one might expect. I think they only had a handful – just 19 properties I think were sold. So what we're

	saying is you're paying a few million dollars maintaining these vacant properties. Maybe it would be good to speed up the disposal of them.
Q: Crawley: Couldn't they be repurposed for other needs? We were just talking about the lack of social housing and the government has talked a lot about property, wanting to benefit that people are trying to find properties. Would you have some ideas of what should be what should be done with these government buildings?	I mean, they're like old OPP detachment offices, correctional facilities. So I mean, is there a potential re-purposing? I think that's a good question for maybe Infrastructure Ontario. I don't want to - I'm not sure. I'm not sure of the re-purposing, so I don't want to take you down a path there but I think these are designated properties for disposal. So our point was just, you know, maybe it's good to do something with them rather than continue to pay, I think it's $19 million a year, goes toward maintaining these vacant properties.
Q: Crawley: Many, many millions more worth of real estate, were you able to count (inaudible)?	We don't have an estimate. They're all book value. So we don't have an estimate of the value of all of that property now. But again, that's probably a good question for Infrastructure Ontario.
Q: Ferguson: Getting back to the car washes and the (inaudible) traps and the carpet cleaning at the power plants. How much money was spent on - was billed on things like car washes?	So in the report, we indicate that there was about, the ISO - excuse me - through the investigation, they identified about $260 million in billings that they would say were for ineligible costs. About 168 of the million of that were recovered. And part of the rest, there wasn't a material or invoices provided. And so, there was a settlement. Right. So, you know, how much of that remaining? I don't - I can't comment.
Q. Ferguson: For car washes, like dirt, does any of your (inaudible)?	No, we didn't tabulate that. I think the ISO team, I think, did a lot of work there in coming up to the $260 million but I don't know the breakdown. I think we cited some examples because it was kind of foreign to us when we looked at this because, you know, these are supposed to be costs for gas, costs for maintaining a plant and costs for operating a plant. So, obviously, you know, we were concerned when we saw what they had identified themselves as issues. I think the point here is the OEB panel did their job. They did their job in identifying issues. I think where there needs to be a little bit more accountability is that the ISO level for making changes or for looking and providing reasons for why changes weren't being made to back to the panel to explain why their recommendations weren't implemented more fully.
Q. Crawley: Do you have any sense of why it is that they did not recommend the (inaudible)?	Well, I think, like what we say in the report and what we were told is that, you know, there are reliability concerns and that, you know, these programs are operating for reliability purposes and that's where the OEB comes in and says no, well give us your technical reports as to why you think those two programs are needed for reliability of the system. I mean, one deals with congestion on the lines and the other one deals with people, the gas plants being available to provide peaking power. But when you're in a surplus situation again, you know, you kind of revisit that program and the other one and congestion. You know, I think you revisit that one too when times change. Those programs have been around since 2002, 2003. So, time to revisit.

Q. Crawley: The IESO have too close relationship with the private companies that are making money off of this and providing the power. Is there two...	The only thing I would say there is that when we looked at the market initiative that, you know how there is now an initiative to redesign the market. Right? And we have concerns that there might not be sufficient representation from, you know, a residential rate pair or a small business rate pair on not that. And that people that were members - working for companies that either have been investigated or under investigated and found to have been playing the market. Those companies still continue to be in that group that's redesigning the market. So we do have that in the report. We said that is a concern. I did find out today that as of December 1st, I think Goreway was removed but, you know, that and I think the technical panel that provides advice to ISO, also has people involved - organizations. This is not a people thing, this is an organization discussion because over time players change, right. So even though the person on December 1st was from Goreway, chances are they weren't the person that was involved in some of the problems that they had there. So the technical panel also has membership that we would question. All right, thank you very much.
N.B.: Comments captured are not verbatim quotes	

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Fedeli Focus on Finance

Year-End in Focus

Volume 4: No. 12 | December, 2017

Happy New Year! As we settle into the start of 2018, this edition catches you up on what happened in December with respect to Ontario's finances. The earlier December Special Edition of *Focus* covered what the Auditor General had to say. This regular issue will fill in what happened throughout the rest of the month.

The FAO Weighs-in

Of major significance was the release of the Financial Accountability Office's (FAO) *Economic and Fiscal Outlook: Assessing Ontario's Medium-term Prospects*. The very first sentence should give you all the information you need … "FAO projects a return to significant budget deficits." It goes on to explain that despite a strong boost to revenues this year (much is one-time revenue), "the FAO is projecting a budget deficit of $4 billion in 2017-18." This is the result of the Auditor General's (AG) recommended accounting treatment for both the government's so-called Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.

Beyond this year, the FAO is projecting a "significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing impact from the Fair Hydro Plan." By 2021-22, the FAO is projecting a budget deficit of $9.8 billion. The report reveals "This is a significant deterioration since the FAO's spring outlook and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment."

The FAO, both in the report and in the briefing lock-up, expressed concern about having all these various forks in the road, leading to several versions of deficit numbers. The report concludes "It is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

The FAO stated that "additional measures to raise revenue or lower spending will be required if the province intends to achieve and maintain a balanced budget." However, there are major differences between the FAO's forecasts and the government's, both on the revenue and expense side. According to the government, between 2017-18 to 2019-20, revenues will grow by 5.2% on average, much higher than the FAO's projection of 4.3%. This results in a difference of $2.9 billion in tax revenue. In addition, many of the one-time revenues will expire, including federal equalization payments (gone by 2019-20), debt retirement charge, federal infrastructure transfers, carbon allowance proceeds (there were five auctions vs four as in most years), and sales of assets, such as Hydro One and various real estate. On the expense side, the government will spend $9.7 billion more than what they had planned to spend in 2017-18, according to their own fiscal plan of just two years ago.

As for the key risks in the outlook, the FAO, as well as most forecasters, continues to assume that uncertainty over NAFTA will have a detrimental effect. Some businesses are postponing investment decisions until this is resolved. The FAO is also concerned that "strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt." With rates expected to rise, "many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth." In the FAO's spring report, it outlined the housing market as a significant threat to the economy, with record consumer debt loads and stretched level of affordability.

Further Analysis

This all ties in with what many associations and financial groups published in December. RBC Economics stated "After several years of consumer spending and housing activity acting as the main engines of growth, changes

to regulations in the housing market and rising interest rates are setting up for a moderation in housing resales and ancillary purchases." With respect to overall growth, RBC further commented that "economic slack has diminished considerably following long periods of expansion, making it harder to repeat 2017's rapid growth rates."

Central 1's economic analysis sees slower growth in the near term, largely from personal consumption and residential spending, with a small drag from a shrinking trade balance. They also list the minimum wage impact and NAFTA uncertainties as sources of risk for the province's economy. Central 1 also reported that small business optimism in Ontario decreased since November, to 57.5/100 (down 0.8%). Since June, year-over-year small business confidence tracked lower than the same period last year. December's year-over-year negative gap was the widest of 2017.

Many organizations chimed in on the minimum wage issue. The Bank of Canada announced that Ontario's move to $15 per hour will cost the province 60,000 jobs. This is bracketed by the Financial Accountability Office's estimate of 50,000 lost jobs, and TD Bank's assessment pegging it at 90,000 jobs to be lost. The CFIB suggested this change will cost Ontario between 68,100-155,900, when both direct and indirect job losses are considered. Undoubtedly this debate will continue, but all eyes will be on the monthly labour statistics, for some monthsto come.

In a series of blistering reports, the Fraser Institute painted a bleak picture of Ontario. The titles are very revealing. Uneven Recovery: Much of Ontario still hasn't fully recovered from the 2008 recession; Canada's job engines are in the West and Quebec – not Ontario; Ontario's manufacturing sector falling behind other provinces, U.S. states; and Rising electricity costs and declining employment in Ontario's manufacturing sector.

Fraser claims that most of the province's job creation took place in its largest urban areas. Toronto and Ottawa alone created the equivalent of 98.6% of all new jobs in Ontario between 2008 and 2016. Basically, throughout the rest of Ontario, there has been virtually no job creation since 2008. I can attest that my hometown of North Bay is one of the 17 urban areas that are under the national average, and one of the 11 urban areas that actually experienced net job losses (around 9%) since 2008.

While Ontario is not alone in having a reduced manufacturing sector, it exhibits the most substantial decline when compared to other jurisdictions in Canada and the U.S. Fraser compared the manufacturing sector's share of real GDP between 2005 and 2016. Ontario's share dropped 5.1% compared to the U.S. falling less than 1%. In fact, several jurisdictions in the U.S. northeast (our main competitors) saw increases, including Indiana at 1.5%, and Michigan and Kentucky by almost 1%. Another indicator of decline is Ontario's relative ability to attract investment. Between 2006 and 2016, manufacturing investment declined by 26%, while it increased in Saskatchewan by 35%, B.C. by 15%, Quebec by 11%, and Manitobaby 5%.

The various reports conclude "Ontario is faring so poorly relative to other jurisdictions that all face the same challenges. Simply put, poor policy, including policies that have dramatically increased electricity costs, which have likely placed too large a financial burden on manufacturing and hampered the sector's competitiveness."

Hydro Still Making News

Ontario's skyrocketing hydro rates just can't seem to shake the news cycle. After the Auditor General revealed that $260 million was paid out in ineligible expenses claimed by power plants, opposition parties have called for a deeper review, including asking the OPP to investigate. It was further revealed that Ontario Power Generation is one of the companies that still owes ratepayers for inappropriate expenses.

New government rules forced local utilities to promote the government's programs. An Order in Council mandated that utilities must print 'Ontario's Fair Hydro Plan' and 'Bringing electricity bills down' in a "reasonably prominent location on the face of the bill insert." The so-called Fair Hydro Plan is the name the government gave to their financing scheme to temporarily (and the AG states artificially) lower hydro bills by an average of 25%. The Niagara-on-the-Lake Hydro Board issued a statement accusing the government of politicizing electricity bills.

Hydro customer debt and disconnections soared, according to new numbers quietly posted by the Ontario Energy Board. During the past four years, there's been a 19% increase in residential hydro disconnections, a 28% increase in households in arrears, and a 40% increase in customer debt owed to the local electricity distributors. North Bay Hydro wrote off more than $1.12 million in past-due bills for 2,930 customer accounts. This was 40 times greater than the $25,573 written off the previous year, for 145 accounts.

A CBC News story detailing how market-based bidding has pushed down the price of renewable electricity in places such as Mexico, got others doing comparisons with Ontario's costs. The story described 'the cheapest electricity on the planet' in Mexico, at 1.7 cents/kwh for wind power. Over the last year the rate paid to wind generators in Ontario was 14 cents/kwh. As a result, Ontario families and industries are struggling to pay amongst the highest electricity rates in North America, with rates increasing by 71% since 2008.

Conclusion

Ontario families, businesses, Legislators, and rating agencies, need to trust the government's fiscal projections. But as the FAO stated, there is reduced transparency and reliability of Ontario's fiscal plans. This needs to end. We should have one set of books in Ontario – and a government that will work to ensure the government's books are properly reported.

Key Questions

Will the government accept the fiscal assessment of the Financial Accountability Officer and publish realistic numbers in their 2018 budget?

Will the government acknowledge that much of Ontario hasn't recovered from the recession and propose turn-around solutions for our economy?

Will the government address the core causes of skyrocketing hydro rates and stop buying costly power we don't need?

Similar stories of waste, mismanagement, and scandal are disclosed in my new book, *Focus on Finance 4*.

Please go to www.fedeli.com to download your own copy of the book.

Please feel free to SHARE this report with as many people as you can!

If you would like to read previous issues of Focus on Finance, please go to www.fedeli.com or email us and we'll add you to our electronic mailing list.

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A.pdf

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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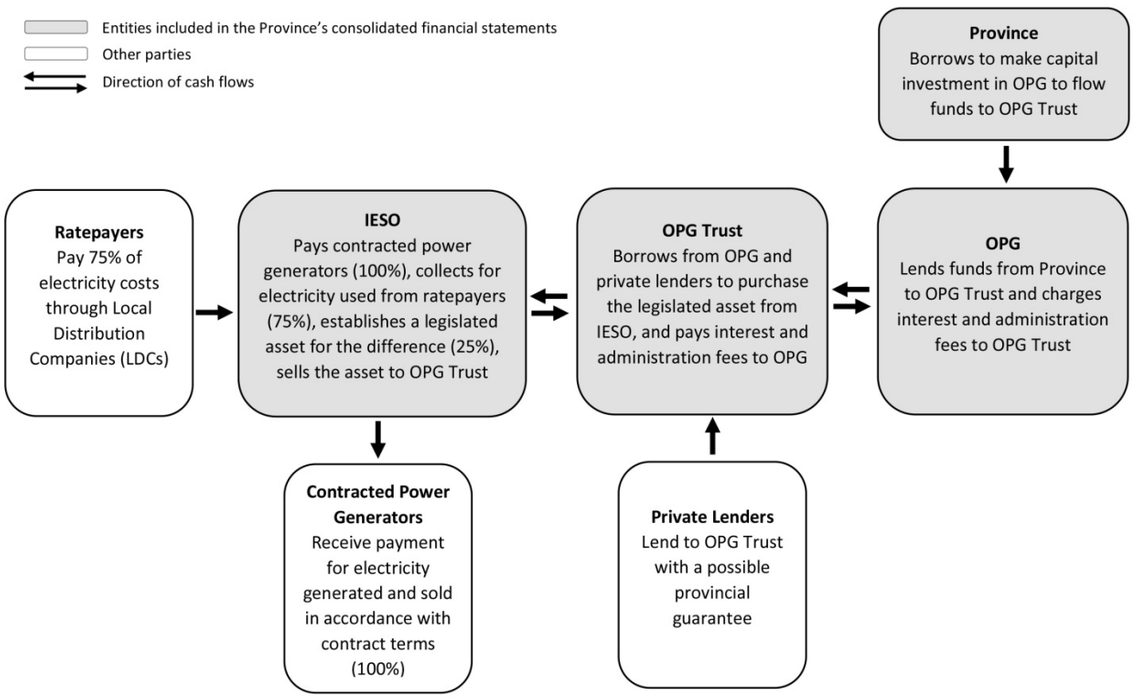
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
    - Committee members plus the Clerk, only; no audience or presenters
    - The Committee will discuss the outcome of the meeting and if they want to do a report
    - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

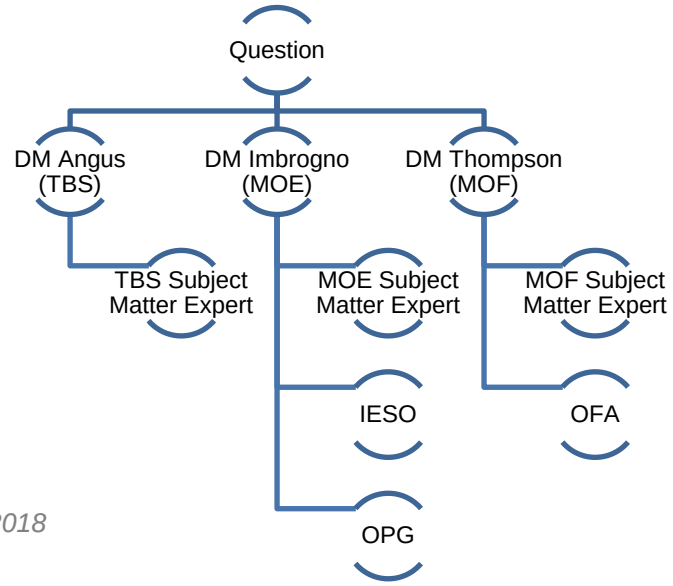
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

.../2

Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.

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- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.
- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment and advice to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.
- We're committed to proactively working with the Office of the Auditor General.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.
- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.
- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan.**

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IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

Pre-Election Report

- And finally, speaking to the Pre-Election Report –

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- On February 26, 2018, the government posted a regulation under the *Fiscal Transparency and Accountability Act, 2004,* that requires the government to issue a pre-election report on Ontario's finances.
- The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.
- The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:
    - The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
    - An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
    - Details of the reserve; and
    - Information about the ratio of provincial debt to Ontario's gross domestic product.
- The government intends to release the pre-election report concurrently with the 2018 Budget.
- Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.
- Either Deputy Thompson or I would be pleased to answer questions regarding the report.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.

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- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.
- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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1. SCOPA Key Messages_SOC_20180227 v9.pdf

KEY MESSAGES

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Last updated: February 27, 2018
Includes review by Treasury Board Secretariat, Ministry of Energy and Ministry of Finance.

ROLE OF THE SECRETARY OF THE CABINET

Topic	**Government Decision-Making/Advice Provided/Personal Opinion**
Key Messages	• As the head of the Ontario Public Service, it is my role to provide my best advice to the Premier to help deliver on the government's mandate. • To this end, I rely on the expertise of the province's professional staff to ensure appropriate due diligence in providing objective advice to support government decision-making. • I would add the point here that this professional advice takes a number of forms – legal, accounting, etc. • Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table. • If the public service has provided its objective advice based on this due diligence, and if the decisions made are constitutional, and the effects of the policy are accounted for transparently, then we have fulfilled our role as public servants. • As you can appreciate, as the Secretary of the Cabinet, it is not my role to provide advice based on my opinions – it is my role to provide my advice based on objective evaluation of the policy options. • I, and my colleagues in the Ontario Public Service, will continue to ensure our due diligence to support decision-making for this policy decision and any others.
Handover	• For more information on the processes surrounding specific policy decisions, I will pass it over to: o Deputy Angus

Topic	**Relationship with the Office of the Auditor General**
Key Messages	• I speak for myself and my colleagues when I say that the public service has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring. • Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General. • I know, for example, that the Internal Audit Division works closely with the Office of the Auditor General to ensure that stakeholders are engaged in discussions regarding risks and resolution. • As public servants, we will continue to ensure appropriate due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.
Handover	• For further details on recent collaborations with the Office of the Auditor General on the topic of the preparation of Public Accounts, I will pass it over to: o Deputy Angus

PENSION ASSET ACCOUNTING

Topic	**Pension Asset Accounting**
Key Messages	• The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards. • The government sought advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel in addition to getting advice from external consultants, as well as completing additional research and analysis conducted internally. • The determination to include pension assets in the Public Accounts is based on the evidence available that the accounting that had been followed since 2001 was, and continues to be, in accordance with accounting standards for government. We have been open and transparent about how that decision was made. • The responsibility of our professional accounting staff requires them to act in accordance with their professional code of conduct by ensuring the Public Accounts present a fair and objective representation of the government's fiscal position. • The province is open to continue to discuss the matter with the Office of the Auditor General in the hopes of resolving this matter.
Handover	• For further information regarding pension asset accounting, I will pass it over to: o Deputy Angus

IESO ACCOUNTING

Topic	**IESO Accounting Changes – Market Accounts**
Key Messages	• The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. • In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. • The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. • The government supports this enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. • The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. • The province is open to continue to discuss the issue in the hopes of resolving this matter.

Handover	• For further details on IESO's decision to adopt market accounts, I will pass it over to:
	  o Deputy Imbrogno
	• For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
	  o Deputy Angus

Topic	**IESO Accounting Changes – Rate-Regulated Accounting**
Key Messages	• The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards, and is regulated by the Ontario Energy Board under the Electricity Act. • The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its internal reporting policies. • Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses that are recovered through rate regulation over time. • This change brings IESO's reporting in line with the accounting practices followed by other independent system operators in North America. • The change also provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect these amounts in the future. • The province is open to continue to discuss the issue in the hopes of resolving this matter.

Handover	• For further details on IESO's decision to adopt rate-regulated accounting, I will pass it over to:
	  o Deputy Imbrogno
	• For further details on the province's decision to accept IESO rate-regulated accounting on the province's consolidated financial statements, I will pass it over to:
	  o Deputy Angus

ONTARIO FAIR HYDRO PLAN

Topic	**Ontario's Fair Hydro Plan (OFHP) Decision-Making**
Key Messages	• As public servants, it is our role to provide our best, objective advice to support government decision-making. • For this policy matter, like any other, our professional staff ensured the proper due diligence was completed in providing their advice. • In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure this due diligence was completed. • External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and their engagement is in the normal course of business. • The proposed accounting for Ontario's Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. • The province's professional staff will continue to complete the proper due diligence and provide their best objective advice on complex transactions. • The province has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with Public Sector Accounting Standards.
Handover	• For further details on that due diligence, including the consideration of a range of implementation options and consultations with legal, accounting, financial and energy sector third-party experts, I will pass it over to: o Deputy Imbrogno

PRE-ELECTION REPORT

Topic	**Pre-Election Report**
Key Messages	• On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances. • The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election. • The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan: o The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions; o An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses; o Details of the reserve; and o Information about the ratio of provincial debt to Ontario's gross domestic product. • The government intends to release the pre-election report concurrently with the 2018 Budget. • Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.
Handover	• For further details on the Pre-Election Report, and how the province has been working with the Office of the Auditor General, I will pass it over to: o Deputy Angus; and, o Deputy Thompson

Last updated: February 27, 2018
Includes review by Treasury Board Secretariat, Ministry of Energy and Ministry of Finance.

PROVINCE'S FISCAL SITUATION

Topic	**Debt**
Key Messages	• The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. • The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. • These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
Handover	• For further details, I will pass it over to: o Deputy Thompson

PREPARATION OF PUBLIC ACCOUNTS

Topic	**Future/Adverse Audit Opinions**
Key Messages	• It would be inappropriate for me to speculate on the type of opinion the Auditor General may issue for the next Public Accounts. • What I can say is that the province has a strong track record of producing high-quality financial reports on a timely basis. • We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards and ensure due diligence through our internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and by always bringing our best, objective professional judgment to the table. • We will continue to work constructively with the Office of the Auditor General and, at the appropriate times, keep all independent officers of the legislature informed.

Handover	• If you would like further details on the preparation of Public Accounts and the province's work with the Office of the Auditor General, I would be happy to pass it over to:
	  o Deputy Angus
	• If you would like further details on the province's fiscal management, I would be pleased to pass it over to:
	  o Deputy Thompson

Topic	**External Advisors**
Key Messages	• We will continue to ensure appropriate due diligence is completed in all objective advice that we provide to support government decision-making. • This includes completing our own internal analysis, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table. This is particularly important for complex or emerging matters. • Our professional staff will continue to take a proactive approach to raising items with the Office of the Auditor General. • We remain committed to working with the Office of the Auditor General to discuss items as they arise.
Handover	• For further details on how we use external expertise to support our own internal analysis, I will pass it over to: o Deputy Angus

Topic	**Timeline of Finalization of Financial Statements**
Key Messages	• The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts. • The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. • Planning discussions for the 2017-18 Public Accounts have already begun between the Office of the Provincial Controller and the Office of the Auditor General. • As well, the Office of Economic Policy in the Ministry of Finance has been engaged in discussions with the Office of the Provincial Controller on risk considerations related to economic models used to estimate personal and corporate tax revenues in an effort to bring forward the delivery of the Public Accounts. • We remain committed to working constructively with the Office of the Auditor General.
Handover	• For further details, I will pass it over to: o Deputy Angus

OTHER TOPICS

Topic	**Records Disclosure**
Key Messages	• As public servants, it is our role to provide our best advice and conduct our due diligence to inform government decision-making. • Part of this process includes information gathering, questioning and deliberating. • The specific record you are referring to is likely part of that discussion process, where we as public servants engage in deliberations and explore the options to formulate our best advice. • It is important to keep in mind that an individual email, or trail of emails, represents a point in time discussion. • Statements contained within them are not necessarily representative of the final advice put forward or an endorsement of what the public service has identified as the best approach. • The records must be considered in the context of broader discussion and deliberation, as an exercise in due diligence, and not necessarily as a final endorsement of any particular option or approach. • As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
Handover	• For further details, I will pass it over to: o Deputy Angus

Topic	Out of Scope
Key Messages	• Thank you for your question. • I'm not sure that I can speak to the specifics of your question, but would be happy to pass it over to my colleague, Deputy ____, who may know more. • If we don't have the information with us today, we will make every effort to get the Committee as much information as we can.
Handover	• For further details, I will pass it over to: o Deputy Angus o Deputy Imbrogno o Deputy Thompson

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Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public

Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the “Accounts Under $50,000” category.

As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.

Optional key messages:

- IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, IESO has also requested that its external auditor fully cooperate with the audit being completed by the Auditor General.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
Optional response for TBS (IESO can speak further to their accounting.)

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
Optional response for TBS (IESO can speak further to their accounting.)

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

For more information on the province's credit rating, I will pass it over to my colleague at the Ministry of Finance, Deputy Thompson.

AG Audit of 2017 IESO Financial Statements

Key Messages

Optional key messages:

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?**

   The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), not in accordance with legislated accounting.

   (Issue of "legislated accounting" is addressed in next subsection.)

   The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

2. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

3. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

4. **The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?**

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
(OPCD: "A note is being finalized and will be shared; the note was pending documents being finalized with respect to the OPG Trust and financing details [completed in early 2018]").

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

5. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe the government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

6. **The Auditor General says that the government is "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?**

   In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

   OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

7. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance**

55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

8. **The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

9. The Auditor General says that even government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

10. Why didn't you engage the Auditor General earlier regarding the accounting issues with Ontario's Fair Hydro Plan?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

For this issue, like any other, the province's professional staff exercises judgment in applying the standards and as necessary, consult with external experts and advisors.

The province's professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General. The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issues.

For further questions on OFHP, I will pass it over to my colleagues at the Ministry of Energy.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.
- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Isn't the government just changing the rules to suit its needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?**

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

   I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.

That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. **The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?**

   As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   We will look into this question, and make every effort to get the Committee as much information as we can.

4. **Why are you charging excessive fees and extending timelines? Aren't you delaying access to important information and not being open and transparent?**

   Consistent with other Canadian jurisdictions, Ontario's Freedom of Information legislation operates on a user-pay principle. Processing fees are required to be paid when requesting government records.

   Ontario's current fees are in line with other Canadian jurisdictions.

   The Information and Privacy Commissioner has supported the user-pay principle as it may help eliminate questionable uses of the act.

   Treasury Board Secretariat (TBS) has an extended compliance rate of 94 per cent for freedom of information (FOI) requests in 2017. (Extended compliance is

the percentage of all completed requests where the ministry issued a decision within the allowable timeline.)

TBS continues to uphold the principles of openness and transparency when considering requests for information and making more government information publicly available.

5. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances.
- The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.
- The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:
    - The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
    - An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
    - Details of the reserve; and
    - Information about the ratio of provincial debt to Ontario's gross domestic product.
- The government intends to release the pre-election report concurrently with the 2018 Budget.
- Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. When will the pre-election report be released?

On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances within 7 days of the Minister of Finance moving the Budget motion.

However, the government intends to release the pre-election report concurrently with the 2018 Budget. Both the 2018 Budget and pre-election report will be available to the Office of the Auditor General for review in the coming weeks.

2. What will be included in the pre-election report?

The purpose of the pre-election report is to outline the province's estimated revenues and expenses and other details of the fiscal plan before the start of the provincial election.

The Ministry of Finance and Treasury Board Secretariat are responsible for releasing the report, which must include the following information, updated from the most recent fiscal plan:

- The macroeconomic forecasts and assumptions that were used to prepare the fiscal plan and any significant differences from those forecasts and assumptions;
- An estimate of Ontario's revenues and expenses, including estimates of the major components of those revenues and expenses;
- Details of the reserve; and
- Information about the ratio of provincial debt to Ontario's gross domestic product.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why did the government wait so long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have been proactively working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report.

On February 26, 2018, the government posted a regulation under the Fiscal Transparency and Accountability Act, 2004, that requires the government to issue a pre-election report on Ontario's finances.

The government intends to release the pre-election report concurrently with the 2018 Budget. Both the 2018 Budget and pre-election report will be available to the Auditor for review in the coming weeks.

The province continues to engage all officers of the legislature to engage constructively to ensure the people of Ontario are provided with an

independent review of the Province's fiscal position in advance of the election.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we

acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

Presenting the province's share of jointly-sponsored pension plans in the consolidated financial statements is an accurate depiction of the net debt position. The Pension Asset Expert Advisory Panel confirmed the province's accounting is in accordance with PSAS, and the government accepted the recommendations of the Panel.

Similarly, the province's staff, along with the IESO and OPG, and have done their research, in conjunction with their external advisors, to confirm that the application of rate-regulated accounting is appropriate for application under the GAAP hierarchy. PSAS is silent on the application of rate-regulated accounting for regulated entities which follow PSAS. In such circumstances, preparers of financial statements are instructed to use professional judgment in assessing the application of other accounting frameworks that are consistent with the concepts within PSAS. In so doing, the statements will correctly reflect that the refinancing of the generating assets are due for collection from ratepayers in the future.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

For more information on the province's credit rating, I will pass it over to my colleague at the Ministry of Finance, Deputy Thompson.

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   I would add that professional external advice takes a number of forms, including accounting, legal, etc., and may come from advisors who often have experience on how similar issues have been resolved in comparable jurisdictions.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

There are no plans to establish a panel at this time.

If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and

Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?

As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of

the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and was in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

Relationship with the Auditor General

4. What is your relationship with the Auditor General?

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. **Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?**

   To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

   For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective

sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

Other

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

Treasury Board Secretariat plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:

- Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
- Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
- Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
- Supporting the development of financial management and controllership capacity across the OPS; and,
- Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

The province provides guidance to consolidated entities on the accounting frameworks it applies. For example, Office of the Provincial Controller Division (OPCD) established a requirement for other government organizations to adopt

Public Sector Accounting Standards (PSAS) for their reporting framework with the introduction of International Financial Reporting Standards (IFRS) in 2011, while Government Business Enterprises were directed to IFRS.

Generally speaking, the province does not direct how the standards are applied. In one case, the province did provide direction to the school board sector to clarify an interpretation on a particular PSAS standard to ensure consistency across the sector. But more broadly, the province does not direct accounting policies to its consolidated entities.

Where policies are not consistent with those of the province, there is an adjustment that is made to align those results with the province. An example of that would be with respect to accounting standards that may be applicable for other government organizations, but not for the province. A new standard relating to financial instruments would be an example of that.

Consolidated organizations have adopted those standards, but that standard is not applicable until 2019, as currently planned by PSAB, for senior governments. In those cases, the province wouldn't direct government organizations not to report financial instruments, but would make those adjustments when those organizations to report to align those differences in reporting.

Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith demanded that the government add Hydro One employees back onto the list. Will you do this?**

Only public sector employees are included on the Sunshine List.

As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

- Disclosure of board-approved annual financial statements along with quarterly updates;
- CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
- Shareholders' meetings requirements and rules;
- Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,

- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?**

   The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

   The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

   Questions about specific public sector organizations should be directed to the organization or ministry responsible.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to

balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the

digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets.
- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

Strategic investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

A.pdf

Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180223.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the public service.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Provincial Controller Cindy Veinot in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the Province's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Provincial Controller Veinot who can provide you with more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the Province has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Financial Statement Discussion and Analysis section, FSD&A as we call it, that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the Province to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results provide a relevant comparison across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Public Accounts also include the consolidated financial statements.
- The financial statements present the assets, liabilities, revenue and expenses of all the organizations within the government reporting entity.
- The government reporting entity includes all of the activities of the consolidated revenue fund as well as all the organizations that are controlled by the Province.
- These organizations included provincial agencies like Metrolinx and cancer Care Ontario, hospitals, school boards and colleges.

- Also included are government businesses enterprises, including the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation, Hydro One and Ontario Power Generation.
- The financial statements present the revenue sources for the province such as taxes, federal transfers and other non-tax revenues, income from government business enterprises and other revenue from hospitals, colleges and school board.
- Finally, they include all the expenses of the Province.
- The consolidated statements show the actual Provincial income and spending for the fiscal year, compared to what was planned in the budget for that year.
- This is a quick way to see if the planned spending activities planned in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's financial statements so anyone can see at a glance if revenue or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of provincial organizations, government business enterprises and other financial statements that are consolidated into the Public Accounts.

- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.
- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the Province to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to transfer payment recipients in excess of $50,000 per year are included here as well, including payments to hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across provincial ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other Provincial entities to provide their financial statements to us.
- To that end, we work closely with ministries to ensure information is shared as quickly as it is available.
- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.
- TBS also works with other ministries through the Internal Audit Division that leads, among other things, an audit of all financial IT systems.
- This audit overviews financial systems like the Integrated Financial Information System, or IFIS, and the Workforce Information Network, or WIN.
- Reviewing these systems is a critical part of the Public Accounts process as they make up a major part of the Certificate of Assurance process that ensures financial data that TBS gathers is accurate.
- Timely completion of this audit is crucial to the timely release of the Public Accounts, so TBS works closely with ministry partners to complete this process.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General presents an audit opinion on the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.

- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the Province was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.
- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

What Guides Public Accounts Accounting Decisions?

- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the Treasury Board Secretariat formulates its position on accounting methods.
- Our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.

- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the principles that all provinces in Canada follow in their accounting and reporting practices.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about reporting transactions for public sector entities.
- But because accounting can be complex and new transactions can emerge, the standards do not always provide explicit guidance on how to account for specific transactions.
- It is sometimes necessary to look to other accounting standards and frameworks to support the preparation of the Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.
- To quote directly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*
- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*

[1] Public Sector Accounting Standards Handbook, PS1150.07

- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- TBS also considers positions taken on accounting issues by other senior governments in Canada.
- We are in regular contact with the provincial controllers and staff from other provinces and the federal government.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.
- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.
- Taking into account the expertise and advice we have access to, we make a decision on how the Province should present its financial statements that is in accordance with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

2. Long-Form Member Question_Open Government and Public Accounts_20180222.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the Treasury Board Secretariat making sure that the Public Accounts are open and accessible to everyone in Ontario?

Last Updated: Feb. 22, 2018
Reviewed by: Bryant Sullivan, Open Government Office, OPCD, OTB, Sofie DiMuzio.

ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing provincial information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.
- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.

- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the public service turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

  Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to provincial data by proactively sharing provincial datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all provincial data open by default, and the International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the public service to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the Province's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure provincial spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.
- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a “just the essentials” look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the “just the essentials” Public Accounts page, they can find highlights of the province’s spending and a simple breakdown of the province’s revenue.
- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the Province releases the Public Accounts each year, the value of this report to Ontarians, and how the Public Accounts tie into the Open Government initiative.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader’s guide to the Public Accounts.

- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.
- These tables are found on the Ontario.ca Public Accounts page dedicated to Volume Two of the Public Accounts.
- The data is divided into three tables, sorted by provincial organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular entity could type the organization's name into the search bar and have the results show up right away.

- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all provincial spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of provincial spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how provincial spending fits together to make up the entire amount that the Province spends each year.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.
- The Treasury Board Secretariat codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- TBS also ensures that all documents that are available for download are fully accessible.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.

- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the Province compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

3. Long-Form Member Question_Engagement Between TBS and OAGO_20180223.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

Last Updated: Feb. 21, 2018
Reviewed by: Bryant Sullivan, OPCD, OTB, Sofie DiMuzio.

ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the Province is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the Province and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

How OPCD Works with OAGO Generally

- For example, one of the things that enables the Auditor General to have confidence in the results that are presented in the Public Accounts is the robust financial controls that are in place across the public service.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, signed by deputy ministers from every ministry, each ministry's Chief Administrative Officer and each Director of Finance.
- The Certificate of Assurance attestations is used to support the Treasury Board Secretariat's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the Province is operating transparently when preparing its finances, including the Public Accounts.

- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration is an annual audit process undertaken by the Corporate Financial Assurance Audit team of the Treasury Board Secretariat.
- This audit evaluates the reliability of key controls over two key financial systems: the Integrated Financial Information System, known as IFIS, and the Workforce Information Network, known as WIN.
- The audit forms a part of the Certificate of Assurance attestation that I just described and is also provided to the Office of the Auditor General to help inform the office's Public Accounts audit.
- The staff at the Corporate Financial Assurance Audit team also correspond with the Office of the Auditor General on the results of the Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- Staff from the Office of the Provincial Controller and the Auditor General's Office have discussions throughout the year on matters that may impact the Public Accounts.
- The discussion becomes more frequent late in the fiscal year, prior to the Province's fiscal year end.
- In these meetings, representatives from both offices discuss areas of audit focus and what information is required for the audit to go smoothly.
- The Treasury Board Secretariat also reviews the Audit Planning Report produced by the Office of the Auditor General at the start of the audit, and works with the office to ensure the completeness of the audit plan.

- Reviewing the Audit Planning Report provides an opportunity for TBS to identify potential areas of improvement for future Public Accounts.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.
- These meetings continue throughout the audit, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller also provides analysis related to any items identified while preparing the Public Accounts.
- The Treasury Board Secretariat also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- The offices also work toward finding resolution on how matters should be best reflected in the consolidated financial statements.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the Treasury Board Secretariat time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.

- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the Province's records.

Examples of Success in this Approach

- The Province and the Auditor General work closely to make sure that the Province is accountable when it comes to Ontario's finances.
- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the Province made is in how third party revenues are shown in the consolidated financial statements from hospitals, school boards and colleges, referred to collectively as the broader public sector, or BPS, in the Public Accounts.
- Third party revenues from the BPS, such as tuition fees, patient fees, research grants and donations, have been part of the Public Accounts since 2005-06 when it was recommended they be consolidated by the Office of the Auditor General.
- Previously, third party revenues were not reported separately as revenue, but were included against expenses reported by the hospitals, school boards and colleges.
- Starting in 2016-17, about $7.9 billion of third party revenues are now shown as a separate line as part of total revenues in the Public Accounts.
- Now, all assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear in their corresponding categories in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which was $591 million in 2016-17, has been combined with overall provincial interest expense.

- This debt used to be included in the expenses of the respective ministry that oversee the hospitals, school boards and colleges, namely Ministry of Health and Long-Term Care, Ministry of Education and the Ministry of Advanced Education and Skills Development.
- It's important to note that this presentation change does not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party revenues in their accounting under Public Sector Accounting Standards.
- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government business enterprises.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.

- Ontario is now using the IFRS standards to account for its government business enterprises in the Public Accounts.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a government business enterprise is.
- When I say government business enterprise, I mean government organizations that:
    - Are legal entities that are separate from the Province with the power to draw up and sign contracts in their own name. Government business enterprises can sue on their own behalf and be sued.
    - They have the financial and operating authority to do business without constantly seeking government permission.
    - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
    - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- The change implemented for 2016-17 related to rate-regulated government business enterprises.
- Rate-regulated government business enterprises are permitted to report under Generally Accepted Accounting Principles for rate-regulated companies in the United States in their own financial statements.
- This permission is in accordance with guidance provided by Chartered Professional Accountants Canada.
- Under Public Sector Accounting Standards, however, all government business enterprises must be reported under IFRS standards.
- Because of this difference between the government business enterprises internal accounting and the accounting they provide to the Province, it is necessary to make adjustments for any differences between the US Generally Accepted Accounting Principles and IFRS standards.

- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The other government business enterprises that are included in the Public Accounts – the Ontario Lottery and Gaming Commission and the Liquor Control Board of Ontario – use IFRS for their statements, so no adjustments are required.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.
- In previous years, the Province has used the unadjusted statements of Ontario Power Generation and Hydro One prepared in accordance with Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no significant change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.

- In the future, the Province will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the Province has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the Province wants to ensure that the Public Accounts is ready to be released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.
- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to allow the Ministry of Finance to provide personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.

- Many of the changes that the Province has suggested are supported by the Auditor General, and public servants work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the audit of internal financial systems and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

4. Long-Form Member Question_IESO Use of Market Accounts_20180223.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the public service makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

Last Updated: February 23, 2018
Reviewed by: Bryant Sullivan, OPCD, Sofie DiMuzio.

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather to understand the sufficiency of the processes and controls in place at the agency to ensure that appropriate accounting policies are chosen and followed.

- In the case of IESO, management made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's audit committee, its board of directors and its third-party independent external auditor.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO made the decision to recognize its market accounts assets and liabilities – the balances that exist as a result of $17 billion in transactions – in its financial statements.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken delivery of electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for producing the electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. Our involvement is on the accounting side of things.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we expect organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the financial statements that are provided to us.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.
- The Office of the Provincial Controller agrees with this change because it is in accordance with the Public Sector Accounting Standards.

Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO is a counterparty to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- Without reflecting the accounting for the transactions on the financial statements of the IESO, there are a set of transactions that are being recorded only in a separate set of accounts that are not presented in the financial statements of the entity.
- Based on IESO's survey of accounting practices for the other independent system operators in North America, the vast majority of them recognize the balanced owing from and to the system participants.
- IESO settles the market similar to what the Toronto Stock Exchange does with respect to trades between buyers and sellers of stock – and it too recognizes the amounts due from and due to the market participants in its financial statements.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.
- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.

- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would be invisible in the Province's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

Conclusion

- So in conclusion, I'll say again that the Province supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.

- The Province accepts the financial results presented from government agencies like the IESO, provided they follow the Public Sector Accounting Standards.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- Thank you.

5. Long-Form Member Question_Pension Asset Accounting_20180222.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the Province I would welcome that as well.

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the Province continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the Province released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue.
- The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the Province as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the Province's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the Province has been using in Public Accounts since 2001, and so the Province was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

- To allow for the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The Treasury Board Secretariat then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the Province that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.
- The Province has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.

- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one.
- External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the Province on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the Treasury Board Secretariat announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the Province as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.
    - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

- The Province asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The Province accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as provincial assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the Province's decision to list these pension plans as assets.
- The panel needed to determine whether the Province could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the Province and the employee sponsors.
- This future economic benefit can be realized by reducing the contributions the Province makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the Province controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In

the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the Province can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.
- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.

- It is important to note that the Province is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the Province could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the Province to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor, only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.

- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the Treasury Board Secretariat's position on these pension plans, TBS also sought out further advice.
- The Province sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.
- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The Province's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the Treasury Board Secretariat determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the Province is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the Province arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- Public Sector Accounting Standards do not say that the Province must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the Province and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the Province

following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.

- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018022 -FINAL.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with some of the highest distribution charges.

- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001.

  - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

    - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

    - In January this year, over 220,000 OESP credits were issued to households across the province.

  - Establishing the new First Nations Delivery Credit.

    - Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and

recognizes First Nations' contribution to the provincial electricity system.

- Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- The government has aligned eligibility for Global Adjustment (GA) refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for the 8 per cent rebate are also eligible for Global Adjustment (GA) refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

  - All RPP consumers receive Global Adjustment (GA) refinancing through the Ontario Energy Board's (OEB) RPP rate setting process.

  - Consumers not participating in RPP but who are eligible for Global Adjustment (GA) refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked

bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

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2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

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It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio,

Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;

5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and

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5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees,

which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

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These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

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There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

SCOPA_MOF_long form QA_Credit Rating_v17 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- The Third Quarter Finances forecast the net debt-to-GDP ratio to be 37.6 per cent in 2017–18.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.

- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.

- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Debt_v17 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs.
- These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio.
- The Third Quarter Finances forecast the net debt-to-GDP ratio to be 37.6 per cent in 2017–18.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."

- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.

- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.

- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

A.pdf

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

AG 2017_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Chapter 2.pdf (721675 Bytes).

AG 2017_News Release_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

AG 2017_Summary_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

AG 2017 Report on Fair Hydro Plan.stub.pdf

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

FW_ SCOPA - material(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY); Cox, Hilary (ENERGY); Whytock, John (ENERGY)
Cc:	Armstrong, Hillary (ENERGY); Nucciarone, Michael (ENERGY)
Subject:	FW: SCOPA - material
Date:	February 21, 2018 12:38:00 PM
Attachments:	SCOPA Briefing Binder_Feb 21 2018.zip

FYI

From: Ue, Allison (TBS)
Sent: February 21, 2018 12:35 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>
Cc: Skoberne, Vivienne (TBS) <Vivienne.Skoberne@ontario.ca>; Nelson, Dane (TBS) <Dane.Nelson@ontario.ca>; Walsh, Laura M. (TBS) <Laura.M.Walsh@ontario.ca>
Subject: SCOPA - material

Hi Martin and Dave

Attached is the revised SCOPA binder for the mock session this afternoon. I believe our comms team has already shared this with your comms teams.

We will have a hard copy for DM Thompson and Gadi. Please share the material with only those that will be attending SCOPA (i.e., individuals listed on page 4 of 7 in Tab 1 - agenda and logistics document).

Thanks,
Allison

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SCOPA Briefing Binder_Feb 21 2018.pdf

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 21, 2018

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SCOPA TBS Issues Overview_TBS_20180215.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses"	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD

5) Peripheral: OPG Executive Compensation	and the IESO's recent unqualified audit record.	are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	• Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

		issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public	• C4SE study • MOF

		infrastructure, GDP increases by up to $6, on average, in the long term.	
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	• Example of single use of legislated accounting (Public Accounts 15-16)
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the	• CPA professional code of conduct

		normal course of business.	
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

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Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
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Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
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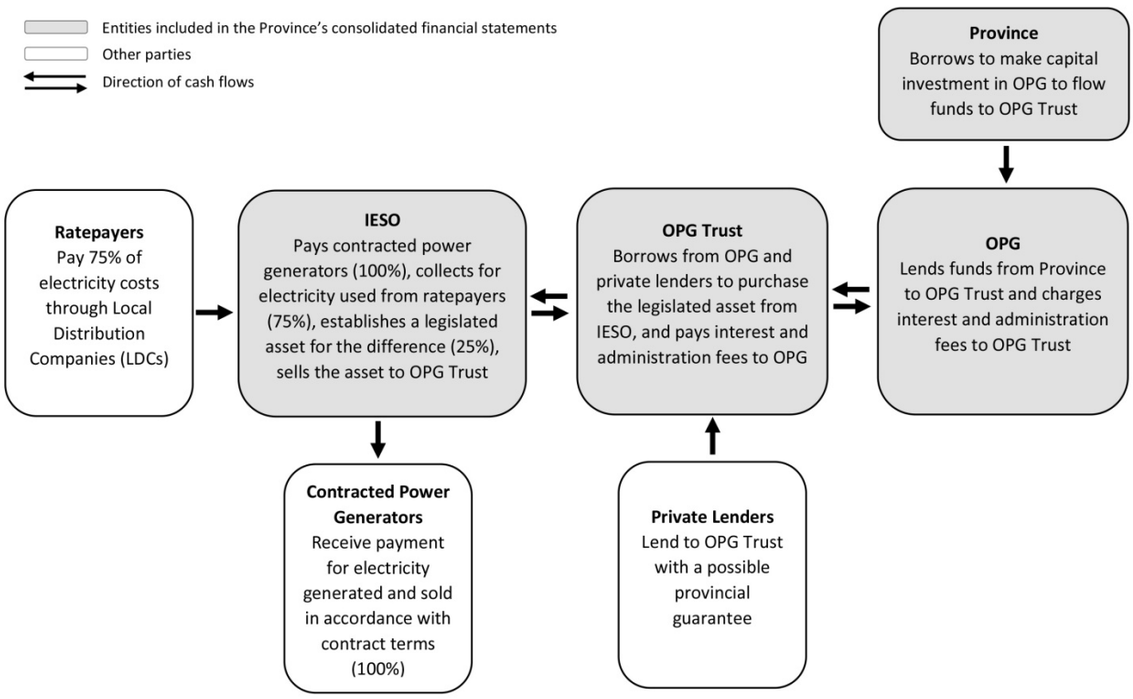
Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

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Clerk
Katch Koch
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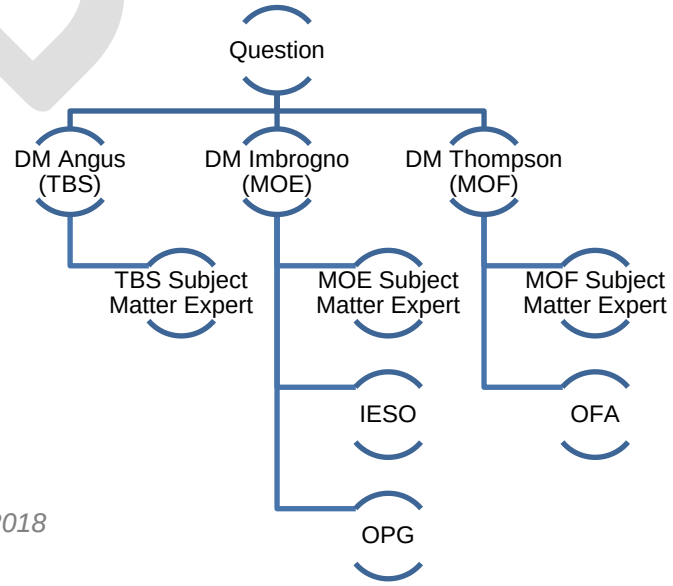
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

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Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires a great amount of teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.
- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.

Last updated: February 14, 2018
Reviewed by OPCD Feb 14, 2018 – OTB approval pending

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- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- We're committed to proactively working with the Office of the Auditor General to discuss issues, once our professional staff have completed their analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.

- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.

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- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan and Legislated Accounting**.

IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

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Pre-Election Report

- And finally, speaking to the Pre-Election Report – Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances, and shall do so before the deadline established by regulation.
- Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.
- Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.
- As always, we remain committed to working constructively with the Office of the Auditor General.
- *TBC: Placeholders*

If release is unknown:

- The province takes the Auditor General's recommendations seriously.
- The government continues to deliberate on whether and when to release a Pre-Election report.
- All officers of the legislature are being kept informed and engaged constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

If release is known:

- The government has assured us that they will provide the people of Ontario with an overview of the province's fiscal position in advance of a writ of election being issued on May 9, 2018.
- To this end, TBS, in partnership with the Ministry of Finance, is in the process of drafting the Pre-Election Report.

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- This report will present the province's estimated future revenue and expense, and other details of its fiscal planning processes, before the provincial election scheduled for June 7, 2018.
- The report will cover the fiscal year of the upcoming 2018 Budget and the next two years.
- It will provide information on:
    - the macroeconomic forecasts and assumptions that will be used to prepare the fiscal plan for the upcoming 2018 Budget;
    - an estimate of Ontario's revenues and expenses, including estimates of the major components of revenues and expenses that will be set out in the plan;
    - details of the reserve that will be included in the plan; and
    - the ratio of provincial debt to Ontario's gross domestic product, or GDP.
- Deputy Thompson or I would be pleased to take any questions on that.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.
- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.

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- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

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During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with

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PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used

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consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not

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receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
To confirm whether IESO or TBS should answer this question.

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards

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(PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
To confirm whether IESO or TBS should answer this question.

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

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The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 IESO Financial Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

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In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity

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cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

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Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

14. The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

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It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.
I will pass it over to my colleagues at the Ministry of Energy to provide further details.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in

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order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

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A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the province to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

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The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?

As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.

That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?

As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

We will look into this question, and make every effort to get the Committee as much information as we can.

4. When does TBS not provide information through a Freedom of Information request?

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Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key messages & QAs to continue to be reviewed for any Pre-Election Report updates.

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   The province remains committed to working constructively with the Office of the Auditor General.

   Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline

established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

2. Is the government required to issue a pre-Election Report?

Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why has the government waited this long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

We continue to engage all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to

determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

The province remains committed to working constructively with the Office of the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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OPCD to add content re: transparency of the net pension assets and the Fair Hydro Debt.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

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When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

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The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

   There are no plans to establish a panel at this time.

   If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

   The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. **How much did the Treasury Board Secretariat spend on consultants?**

   The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

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- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

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1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

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- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to

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accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

   The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

   The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

   TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports

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on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and were prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Relationship with the Auditor General

4. **What is your relationship with the Auditor General?**

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension

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plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development)

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and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   OPCD to provide response.

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

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4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?

The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

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6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

   A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

   To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

   The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

   As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

   TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

   The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

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TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

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This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

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2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

DRAFT

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

As the result of Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180214.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Associate Deputy Minister Karen Hughes in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the government's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

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- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Associate Deputy Minister Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

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What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the government has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Discussion and Analysis section that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the government to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results are restated to provide a relevant comparison of results across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Beyond the annual report, Public Accounts also include the consolidated financial statements.
- These documents compare government revenue from several sources – such as taxes, federal transfers and other non-tax revenues.
- They also include income from government business enterprises, such as the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation and our utility enterprises, OPG and Hydro One.
- Finally, the include fees and donations which are consolidated for reporting purposes from hospitals, colleges and school boards – the Broader Public Sector

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– to government expenses incurred from providing government programs and services.

- The consolidated statements show the actual government income and spending that happened in the fiscal year, compared to what was laid out in the budget for that year.
- This is a quick way to see if the planned spending activities contained in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's Public Accounts so anyone can see at a glance if income or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of government ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of government organizations, business enterprises and other financial statements that are consolidated into the Public Accounts.
- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.

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- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the government to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to vendors in excess of $50,000 per year are included here as well, as another example of expense thresholds.
- This group includes hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across government ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other government entities to share their financial statements with us.
- To that end, we work closely with the Ministry of Finance each year to make sure ministries are sharing information as quickly as it is available.

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- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General includes an audit opinion in the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.
- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the government was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.

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- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

What Guides Public Accounts Accounting Decisions?

- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the government formulates its position on accounting methods.
- As you've heard, our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.
- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the rules that all governments in Canada must follow in their accounting.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about public sector accounting.
- But because accounting is often complex and new accounting situations can emerge rapidly, the standards do not always provide explicit instructions on how to approach specific accounting situations.
- It is sometimes necessary to look to other accounting methods to support preparing Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.

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- To quote briefly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*
- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*
- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.

[1] Public Sector Accounting Standards Handbook, PS1150.07

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- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.
- Taking into account the expertise and advice we have access to, we make a decision on how the government should present its financial statements that is in line with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

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2. Long-Form Member Question_Open Government and Public Accounts_20180216.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the government making sure that the Public Accounts are open and accessible to everyone in Ontario?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing government information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.
- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.

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- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the government turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

  Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

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What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to government data by proactively sharing government datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all government data open by default, and the International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

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Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the government to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the government's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure government spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.
- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

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Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a “just the essentials” look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the “just the essentials” Public Accounts page, they can find highlights of the province’s spending and a simple breakdown of the province’s revenue.
- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the government releases the Public Accounts each year, and the value of this report to Ontarians.
- This video is hosted on YouTube by the Ontario government account, and remains embedded on the Public Accounts page each year.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader’s guide to the Public Accounts.

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- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.
- These tables are found on the Ontario.ca Public Accounts pages dedicated to all three volumes of the Public Accounts.
- The data is divided into three tables, sorted by government organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular government entity could type the organization's name into the search bar and have the results show up right away.

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- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all government spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of government spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how government spending fits together to make up the entire amount that the government spends each year.
- It however doesn't show financial reimbursements, recovers or accounts that are in a net-negative position.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.
- The government codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- The government also ensures that all documents that are available for download are fully accessible.

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Open Information and Open Data

- In addition to all the work our officials have done to help Ontarians understand the Public Accounts, Ontario has also released the web content for the Public Accounts under Ontario's Open Government Licence.
- This means that the web content for the Public Accounts can be used worldwide, royalty-free, forever – provided anyone using the information follows the terms of the licence.
- Anyone can copy, modify, publish, translate, adapt, distribute or otherwise use the information in any medium, mode or format, for any lawful purpose.
- The raw spreadsheets for the three volumes of the Public Accounts are also available online in the Ontario Data Catalogue.
- Like much government data, the financial data that the Treasury Board Secretariat uses to create the Public Accounts is opened to the public so it can be used in innovative ways.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.
- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the government compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

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3. Long-Form Member Question_Engagement Between TBS and OAGO_20180215.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the government is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- So even before everything is compiled into the Public Accounts, there is lots of work being done with the Office of the Auditor General to make sure the Public Accounts process goes as smoothly as possible.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the government and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

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How OPCD Works with OAGO Generally

- For example, one of the things that enables the Public Accounts process to run smoothly is the robust financial controls that are in place across government.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, which is used to support the Provincial Controller's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the government is operating transparently when preparing its finances, including the Public Accounts.
- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration in action is the annual SysTrust Audit, which is completed by another team within the Office of the Provincial Controller Division.

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- The SysTrust Audit process evaluates the reliability of government financial systems, including the Integrated Financial Information System, known as IFIS, and the Workplace Information Network, known as WIN.
- The SysTrust Audit forms a part of the Certificate of Assurance attestation that I just described.
- This audit report is also provided to the Office of the Auditor General, so it can provide input on the audit's methodology and results.
- The staff at the Office of the Provincial Controller Division correspond with the Office of the Auditor General on a regular basis during the SystTrust Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- That formal process usually begins in March, prior to the government's fiscal year end.
- These meetings continue throughout most of the rest of the year, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management, and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller and the Office of the Auditor General meet regularly throughout this time.
- In these meetings, representatives from both offices discuss areas of audit focus and information requirements.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.

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- The Office of the Provincial Controller also provides analysis related to any items that might arise while preparing the Public Accounts.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- The government also reviews the Audit Planning Report produced by the Office of the Auditor General, and works with the office to ensure the completeness of the audit plan.
- Reviewing the Audit Planning Report provides an opportunity for the government to identify potential areas of improvement for future Public Accounts.
- The government also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the government time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.
- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the government's records.

Examples of Success in this Approach

- The province and the Auditor General work closely to make sure that the government is accountable when it comes to Ontario's finances.

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- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the government made is in how third party revenues are shown in the Public Accounts document.
- Third party revenues in this context just means money that comes from things like hospitals, school boards and colleges.
- In total, this means about $8.2 billion from things like tuition fees, patient fees, research grants and donations are no longer shown separately from government revenues.
- These amounts are not included in the revenues of the ministry that oversees the third party organization.
- This also means that the liabilities and expenses of third party organizations are shown with the ministry that oversees the organizations.
- All assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear as a line in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which comes out to about $591 million, is now included as interest paid on the debt of the ministries responsible for these organizations.
- These changes do not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party expenses in their accounting.

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- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The changes were made to comply with the Public Sector Accounting Standards.
- And, the Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government businesses.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.
- Ontario is now using the IFRS standards to account for its rate-regulated government businesses.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a rate-regulated government business is.
- When I say government businesses, I mean government organizations that:
    - Are legal entities that are separate from the government with the power to draw up and sign contracts in their own name. Government businesses can sue on their own behalf and be sued.

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  - They have the financial and operating authority to do business without constantly seeking government permission.
  - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
  - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- "Rate-regulated" government businesses are just government businesses that have to set the rates they charge for their goods and services at a specific level due to government regulations.
- Rate-regulated government businesses can't change what they charge based on the market – they have to follow regulations.
- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.

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- In previous years, the government has used the Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.
- In the future, the government will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the government has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the government wants to ensure that the Public Accounts are released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.

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- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to get personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.
- Many of the changes that the government has suggested are supported by the Auditor General, and government staff work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the SysTrust Audit and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

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4. Long-Form Member Question_IESO Use of Market Accounts_20180214.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

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QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the government makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. Once again I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather it's to ensure that when we receive that accounting, it has been done according to public sector accounting standards.

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- In the case of IESO, its board of directors made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's internal audit committee and a third-party independent external auditor.
- The principles used in reporting the IESO market accounts assets and liabilities have been used in the past.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO decided to recognize its market accounts assets and liabilities – the things that make up those $17 billion in transactions – in its financial results.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for taking that electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

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Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. What we do know about is accounting.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we require organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the finances that are provided to us.
- The IESO is a government organization that is regulated by the Ontario Energy Board.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own internal audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.

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- The Office of the Provincial Controller approved this approach because it is in line with the Public Sector Accounting Standards based on previous accounting decisions, the advice of IESO's external auditor and the IESO Audit Committee.

Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO are counterparties to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- This accounting is also consistent with the accounting that was previously used by the Ontario Power Authority in regards to generator contracts that were signed by that organization.
- The Ontario Power Authority was merged with the IESO on January 1, 2015, through an amendment to the Electricity Act.
- What interests me as the Provincial Controller is what that merger meant for the accounting practices of the IESO, and how it reported its finances to the Treasury Board Secretariat.
- The merger between the IESO and the Ontario Power Authority brought together real-time operations of the electricity grid and long-term planning, procurement and conservation efforts.
- It also brought the accounting considerations for the Ontario Power Authority together with the IESO.
- To me, this seemed appropriate, as the method used in the 2016-17 Public Accounts by the IESO was used in past financial statements for the Ontario Power Authority, which was accepted by the Office of the Auditor General at that time.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.

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- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.
- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would go unreported in the government's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

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Conclusion

- So in conclusion, I'll say again that the government supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.
- The government accepts the financial results presented from government accountable not-for-profits like the IESO, provided they follow the Public Sector Accounting Standards and government accounting policy.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards. It is in line with how the Ontario Power Authority, merged with the IESO in 2015, accounted for its market accounts before.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, honest and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- The work that the Office of the Provincial Controller does to ensure that the Public Accounts are accurate and stringent is not a responsibility that it takes lightly.

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- I'm happy to have had the opportunity to lay out the reasons why the Office of the Provincial Controller supports the IESO accounting decisions for the 2016-17 Public Accounts.

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5. Long-Form Member Question_Pension Asset Accounting_20180214.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the government, I would welcome that as well.

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ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the government continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the government released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue. The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the government as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the government's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the government has been using in Public Accounts since 2001, and so the government was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

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- To allow for the release of the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The government then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- This is a key part of our role as public servants – to conduct our due diligence and provide our best advice based on our professional judgment.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the government that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from our external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.

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- The government has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.
- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one. External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the government on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the government announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the government as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.

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  - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

- The government asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The government accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as government assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the government's decision to list these pension plans as assets.
- The panel needed to determine whether the government could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the government and the employee sponsors.

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- This future economic benefit can be realized by reducing the contributions the government makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the government controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the government can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.

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- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.
- It is important to note that the government is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the government could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the government to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor,

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only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.
- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the government's position on these pension plans, the government also sought out further advice.
- The government sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.

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- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The government's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the government determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the government is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the government arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- In closing, I want to reiterate that while the province respectfully disagrees with the Office of the Auditor General's interpretations of the Public Sector Accounting Standards on this issue, we are open to continuing to discuss it in the hopes of finding a resolution.

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- Public Sector Accounting Standards do not say that the government must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the government and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the government following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.
- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

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Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

DRAFT

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA_MOF_long form QA_Balanced Budget_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

SCOPA_MOF_long form QA_Credit Rating_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Fall Economic Statement forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.

- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.

- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.

- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24.
- The government also continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Ontario Economic Outlook and Fiscal Review forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.

- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

A.pdf

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

AG 2017_Chapter 2.stub.pdf

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AG 2017_News Release_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

AG 2017_Summary_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

AG 2017 Report on Fair Hydro Plan.stub.pdf

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FW_ SCOPA - material.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Armstrong, Hillary (ENERGY)
Subject:	FW: SCOPA - material
Date:	February 21, 2018 12:38:00 PM
Attachments:	SCOPA Briefing Binder_Feb 21 2018.zip

Can you pull together a hard copy for the Deputy for the meeting?

From: Ue, Allison (TBS)
Sent: February 21, 2018 12:35 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>
Cc: Skoberne, Vivienne (TBS) <Vivienne.Skoberne@ontario.ca>; Nelson, Dane (TBS) <Dane.Nelson@ontario.ca>; Walsh, Laura M. (TBS) <Laura.M.Walsh@ontario.ca>
Subject: SCOPA - material

Hi Martin and Dave

Attached is the revised SCOPA binder for the mock session this afternoon. I believe our comms team has already shared this with your comms teams.

We will have a hard copy for DM Thompson and Gadi. Please share the material with only those that will be attending SCOPA (i.e., individuals listed on page 4 of 7 in Tab 1 - agenda and logistics document).

Thanks,
Allison

Allison Ue
Manager, Deputy Minister's Office
Treasury Board Secretariat
Office: 416-326-6286 | Cell: 437-997-1200
allison.ue@ontario.ca

SCOPA Briefing Binder_Feb 21 2018.pdf

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 21, 2018

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Tab 10_Environmental Scan.pdf

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Tab 11_Reference Materials.pdf

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Tab 8_Tips for Presenting at SCOPA.pdf

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Tab 9_Auditor General Reports.pdf

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Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

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Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

SCOPA TBS Issues Overview_TBS_20180215.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses"	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD

5) Peripheral: OPG Executive Compensation	and the IESO's recent unqualified audit record.	are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	• Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

		issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public	• C4SE study • MOF

		infrastructure, GDP increases by up to $6, on average, in the long term.	
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	• Example of single use of legislated accounting (Public Accounts 15-16)
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the	• CPA professional code of conduct

		normal course of business.	
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

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PLACEHOLDER

DRAFT

A.pdf

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

Min_Statement_2017 AG Report.pdf

Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

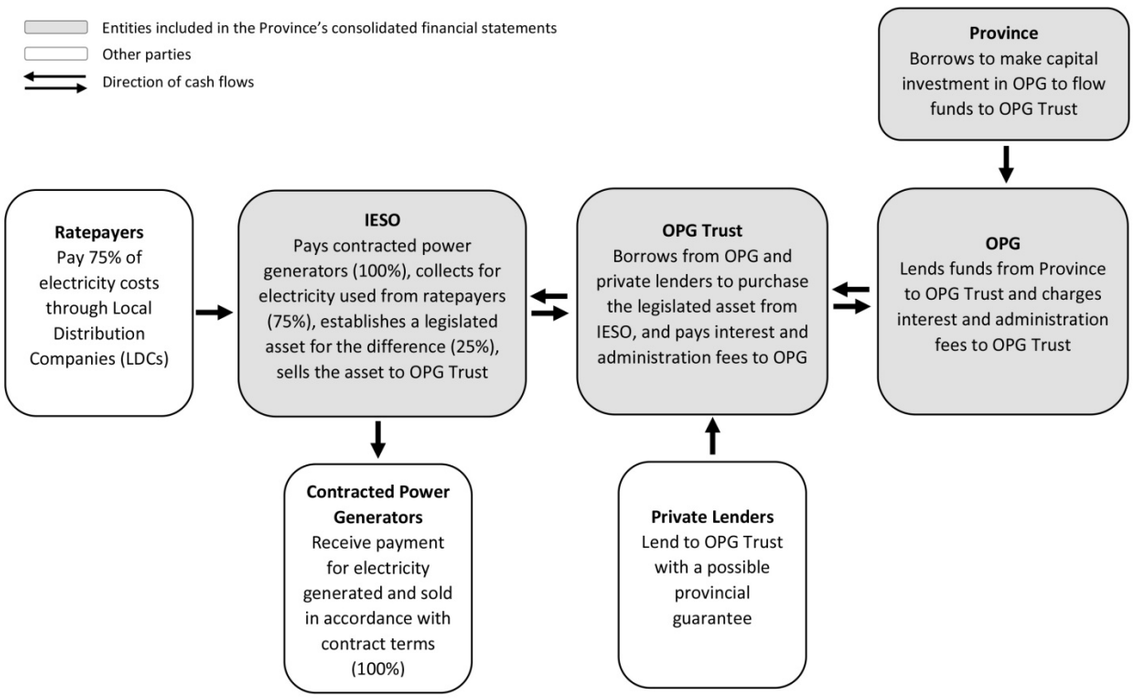
Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Corporate Issues Management Analyst. Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Corresp. & Media Relations	Amanda Miller	January 15, 2018
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
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Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

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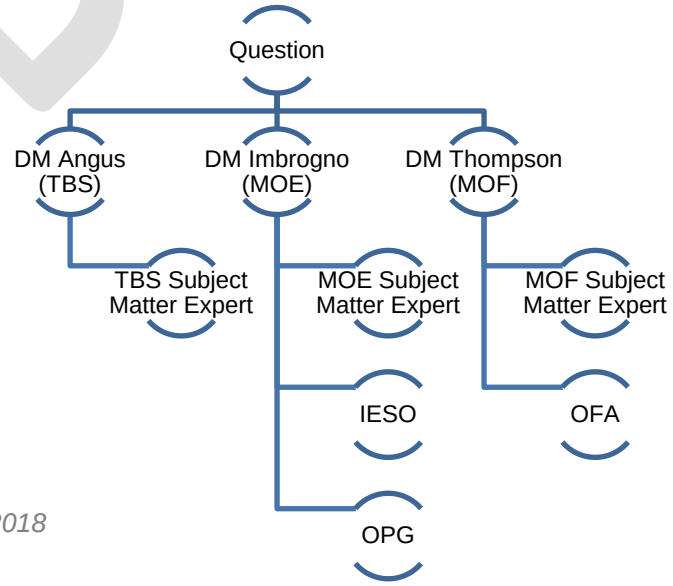
Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

.../2

Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires a great amount of teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.
- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.

Last updated: February 14, 2018
Reviewed by OPCD Feb 14, 2018 – OTB approval pending

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- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- We're committed to proactively working with the Office of the Auditor General to discuss issues, once our professional staff have completed their analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.

- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.

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- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan and Legislated Accounting**.

IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

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Pre-Election Report

- And finally, speaking to the Pre-Election Report – Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances, and shall do so before the deadline established by regulation.
- Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.
- Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.
- As always, we remain committed to working constructively with the Office of the Auditor General.
- *TBC: Placeholders*

If release is unknown:

- The province takes the Auditor General's recommendations seriously.
- The government continues to deliberate on whether and when to release a Pre-Election report.
- All officers of the legislature are being kept informed and engaged constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

If release is known:

- The government has assured us that they will provide the people of Ontario with an overview of the province's fiscal position in advance of a writ of election being issued on May 9, 2018.
- To this end, TBS, in partnership with the Ministry of Finance, is in the process of drafting the Pre-Election Report.

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- This report will present the province's estimated future revenue and expense, and other details of its fiscal planning processes, before the provincial election scheduled for June 7, 2018.
- The report will cover the fiscal year of the upcoming 2018 Budget and the next two years.
- It will provide information on:
    - the macroeconomic forecasts and assumptions that will be used to prepare the fiscal plan for the upcoming 2018 Budget;
    - an estimate of Ontario's revenues and expenses, including estimates of the major components of revenues and expenses that will be set out in the plan;
    - details of the reserve that will be included in the plan; and
    - the ratio of provincial debt to Ontario's gross domestic product, or GDP.
- Deputy Thompson or I would be pleased to take any questions on that.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.
- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.

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- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

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During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with

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PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used

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consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not

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receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
To confirm whether IESO or TBS should answer this question.

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards

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(PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
To confirm whether IESO or TBS should answer this question.

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

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The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 IESO Financial Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

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In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity

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cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

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Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

14. The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

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It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.
I will pass it over to my colleagues at the Ministry of Energy to provide further details.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in

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order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

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A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the province to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

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The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?

As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.

That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?

As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

We will look into this question, and make every effort to get the Committee as much information as we can.

4. When does TBS not provide information through a Freedom of Information request?

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Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key messages & QAs to continue to be reviewed for any Pre-Election Report updates.

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   The province remains committed to working constructively with the Office of the Auditor General.

   Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline

established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

2. Is the government required to issue a pre-Election Report?

Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why has the government waited this long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

We continue to engage all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to

determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

The province remains committed to working constructively with the Office of the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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OPCD to add content re: transparency of the net pension assets and the Fair Hydro Debt.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

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When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

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The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

   There are no plans to establish a panel at this time.

   If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

   The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. **How much did the Treasury Board Secretariat spend on consultants?**

   The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

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- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

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1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

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- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to

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accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

   The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

   The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

   TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports

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on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and were prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Relationship with the Auditor General

4. **What is your relationship with the Auditor General?**

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension

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plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development)

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and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   OPCD to provide response.

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

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4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?

The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

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6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

   A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

   To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

   The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

   As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

   TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

   The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

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TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

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This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

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2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

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Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
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  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

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Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

As the result of Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180214.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Associate Deputy Minister Karen Hughes in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the government's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

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- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Associate Deputy Minister Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

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What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the government has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Discussion and Analysis section that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the government to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results are restated to provide a relevant comparison of results across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Beyond the annual report, Public Accounts also include the consolidated financial statements.
- These documents compare government revenue from several sources – such as taxes, federal transfers and other non-tax revenues.
- They also include income from government business enterprises, such as the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation and our utility enterprises, OPG and Hydro One.
- Finally, the include fees and donations which are consolidated for reporting purposes from hospitals, colleges and school boards – the Broader Public Sector

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– to government expenses incurred from providing government programs and services.

- The consolidated statements show the actual government income and spending that happened in the fiscal year, compared to what was laid out in the budget for that year.
- This is a quick way to see if the planned spending activities contained in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's Public Accounts so anyone can see at a glance if income or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of government ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of government organizations, business enterprises and other financial statements that are consolidated into the Public Accounts.
- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.

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- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the government to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to vendors in excess of $50,000 per year are included here as well, as another example of expense thresholds.
- This group includes hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across government ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other government entities to share their financial statements with us.
- To that end, we work closely with the Ministry of Finance each year to make sure ministries are sharing information as quickly as it is available.

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- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General includes an audit opinion in the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.
- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the government was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.

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- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

What Guides Public Accounts Accounting Decisions?

- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the government formulates its position on accounting methods.
- As you've heard, our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.
- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the rules that all governments in Canada must follow in their accounting.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about public sector accounting.
- But because accounting is often complex and new accounting situations can emerge rapidly, the standards do not always provide explicit instructions on how to approach specific accounting situations.
- It is sometimes necessary to look to other accounting methods to support preparing Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.

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- To quote briefly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*
- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*
- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.

[1] Public Sector Accounting Standards Handbook, PS1150.07

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- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.
- Taking into account the expertise and advice we have access to, we make a decision on how the government should present its financial statements that is in line with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

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2. Long-Form Member Question_Open Government and Public Accounts_20180216.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the government making sure that the Public Accounts are open and accessible to everyone in Ontario?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing government information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.
- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.

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- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the government turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

  Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

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What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to government data by proactively sharing government datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all government data open by default, and the International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

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Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the government to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the government's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure government spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.
- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

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Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a “just the essentials” look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the “just the essentials” Public Accounts page, they can find highlights of the province’s spending and a simple breakdown of the province’s revenue.
- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the government releases the Public Accounts each year, and the value of this report to Ontarians.
- This video is hosted on YouTube by the Ontario government account, and remains embedded on the Public Accounts page each year.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader’s guide to the Public Accounts.

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- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.
- These tables are found on the Ontario.ca Public Accounts pages dedicated to all three volumes of the Public Accounts.
- The data is divided into three tables, sorted by government organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular government entity could type the organization's name into the search bar and have the results show up right away.

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- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all government spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of government spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how government spending fits together to make up the entire amount that the government spends each year.
- It however doesn't show financial reimbursements, recovers or accounts that are in a net-negative position.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.
- The government codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- The government also ensures that all documents that are available for download are fully accessible.

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Open Information and Open Data

- In addition to all the work our officials have done to help Ontarians understand the Public Accounts, Ontario has also released the web content for the Public Accounts under Ontario's Open Government Licence.
- This means that the web content for the Public Accounts can be used worldwide, royalty-free, forever – provided anyone using the information follows the terms of the licence.
- Anyone can copy, modify, publish, translate, adapt, distribute or otherwise use the information in any medium, mode or format, for any lawful purpose.
- The raw spreadsheets for the three volumes of the Public Accounts are also available online in the Ontario Data Catalogue.
- Like much government data, the financial data that the Treasury Board Secretariat uses to create the Public Accounts is opened to the public so it can be used in innovative ways.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.
- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the government compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

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3. Long-Form Member Question_Engagement Between TBS and OAGO_20180215.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the government is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- So even before everything is compiled into the Public Accounts, there is lots of work being done with the Office of the Auditor General to make sure the Public Accounts process goes as smoothly as possible.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the government and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

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How OPCD Works with OAGO Generally

- For example, one of the things that enables the Public Accounts process to run smoothly is the robust financial controls that are in place across government.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, which is used to support the Provincial Controller's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the government is operating transparently when preparing its finances, including the Public Accounts.
- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration in action is the annual SysTrust Audit, which is completed by another team within the Office of the Provincial Controller Division.

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- The SysTrust Audit process evaluates the reliability of government financial systems, including the Integrated Financial Information System, known as IFIS, and the Workplace Information Network, known as WIN.
- The SysTrust Audit forms a part of the Certificate of Assurance attestation that I just described.
- This audit report is also provided to the Office of the Auditor General, so it can provide input on the audit's methodology and results.
- The staff at the Office of the Provincial Controller Division correspond with the Office of the Auditor General on a regular basis during the SystTrust Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- That formal process usually begins in March, prior to the government's fiscal year end.
- These meetings continue throughout most of the rest of the year, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management, and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller and the Office of the Auditor General meet regularly throughout this time.
- In these meetings, representatives from both offices discuss areas of audit focus and information requirements.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.

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- The Office of the Provincial Controller also provides analysis related to any items that might arise while preparing the Public Accounts.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- The government also reviews the Audit Planning Report produced by the Office of the Auditor General, and works with the office to ensure the completeness of the audit plan.
- Reviewing the Audit Planning Report provides an opportunity for the government to identify potential areas of improvement for future Public Accounts.
- The government also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the government time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.
- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the government's records.

Examples of Success in this Approach

- The province and the Auditor General work closely to make sure that the government is accountable when it comes to Ontario's finances.

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- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the government made is in how third party revenues are shown in the Public Accounts document.
- Third party revenues in this context just means money that comes from things like hospitals, school boards and colleges.
- In total, this means about $8.2 billion from things like tuition fees, patient fees, research grants and donations are no longer shown separately from government revenues.
- These amounts are not included in the revenues of the ministry that oversees the third party organization.
- This also means that the liabilities and expenses of third party organizations are shown with the ministry that oversees the organizations.
- All assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear as a line in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which comes out to about $591 million, is now included as interest paid on the debt of the ministries responsible for these organizations.
- These changes do not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party expenses in their accounting.

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- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The changes were made to comply with the Public Sector Accounting Standards.
- And, the Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government businesses.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.
- Ontario is now using the IFRS standards to account for its rate-regulated government businesses.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a rate-regulated government business is.
- When I say government businesses, I mean government organizations that:
    - Are legal entities that are separate from the government with the power to draw up and sign contracts in their own name. Government businesses can sue on their own behalf and be sued.

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  - They have the financial and operating authority to do business without constantly seeking government permission.
  - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
  - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- "Rate-regulated" government businesses are just government businesses that have to set the rates they charge for their goods and services at a specific level due to government regulations.
- Rate-regulated government businesses can't change what they charge based on the market – they have to follow regulations.
- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.

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- In previous years, the government has used the Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.
- In the future, the government will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the government has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the government wants to ensure that the Public Accounts are released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.

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- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to get personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.
- Many of the changes that the government has suggested are supported by the Auditor General, and government staff work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the SysTrust Audit and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

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4. Long-Form Member Question_IESO Use of Market Accounts_20180214.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

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QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the government makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. Once again I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather it's to ensure that when we receive that accounting, it has been done according to public sector accounting standards.

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- In the case of IESO, its board of directors made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's internal audit committee and a third-party independent external auditor.
- The principles used in reporting the IESO market accounts assets and liabilities have been used in the past.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO decided to recognize its market accounts assets and liabilities – the things that make up those $17 billion in transactions – in its financial results.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for taking that electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

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Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. What we do know about is accounting.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we require organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the finances that are provided to us.
- The IESO is a government organization that is regulated by the Ontario Energy Board.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own internal audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.

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- The Office of the Provincial Controller approved this approach because it is in line with the Public Sector Accounting Standards based on previous accounting decisions, the advice of IESO's external auditor and the IESO Audit Committee.

Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO are counterparties to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- This accounting is also consistent with the accounting that was previously used by the Ontario Power Authority in regards to generator contracts that were signed by that organization.
- The Ontario Power Authority was merged with the IESO on January 1, 2015, through an amendment to the Electricity Act.
- What interests me as the Provincial Controller is what that merger meant for the accounting practices of the IESO, and how it reported its finances to the Treasury Board Secretariat.
- The merger between the IESO and the Ontario Power Authority brought together real-time operations of the electricity grid and long-term planning, procurement and conservation efforts.
- It also brought the accounting considerations for the Ontario Power Authority together with the IESO.
- To me, this seemed appropriate, as the method used in the 2016-17 Public Accounts by the IESO was used in past financial statements for the Ontario Power Authority, which was accepted by the Office of the Auditor General at that time.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.

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- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.
- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would go unreported in the government's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

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Conclusion

- So in conclusion, I'll say again that the government supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.
- The government accepts the financial results presented from government accountable not-for-profits like the IESO, provided they follow the Public Sector Accounting Standards and government accounting policy.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards. It is in line with how the Ontario Power Authority, merged with the IESO in 2015, accounted for its market accounts before.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, honest and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- The work that the Office of the Provincial Controller does to ensure that the Public Accounts are accurate and stringent is not a responsibility that it takes lightly.

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- I'm happy to have had the opportunity to lay out the reasons why the Office of the Provincial Controller supports the IESO accounting decisions for the 2016-17 Public Accounts.

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5. Long-Form Member Question_Pension Asset Accounting_20180214.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the government, I would welcome that as well.

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ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the government continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the government released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue. The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the government as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the government's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the government has been using in Public Accounts since 2001, and so the government was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

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- To allow for the release of the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The government then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- This is a key part of our role as public servants – to conduct our due diligence and provide our best advice based on our professional judgment.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the government that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from our external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.

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- The government has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.
- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one. External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the government on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the government announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the government as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.

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  - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

- The government asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The government accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as government assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the government's decision to list these pension plans as assets.
- The panel needed to determine whether the government could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the government and the employee sponsors.

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- This future economic benefit can be realized by reducing the contributions the government makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the government controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the government can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.

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- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.
- It is important to note that the government is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the government could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the government to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor,

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only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.
- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the government's position on these pension plans, the government also sought out further advice.
- The government sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.

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- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The government's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the government determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the government is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the government arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- In closing, I want to reiterate that while the province respectfully disagrees with the Office of the Auditor General's interpretations of the Public Sector Accounting Standards on this issue, we are open to continuing to discuss it in the hopes of finding a resolution.

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- Public Sector Accounting Standards do not say that the government must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the government and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the government following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.
- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

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Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Fall Economic Statement forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.

- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.

- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.

- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Debt_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24.
- The government also continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Ontario Economic Outlook and Fiscal Review forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.

- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Fair Hydro_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

A.pdf

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

AG 2017_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Chapter 2.pdf (721675 Bytes).

AG 2017_News Release_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

AG 2017_Summary_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

AG 2017 Report on Fair Hydro Plan.stub.pdf

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

FW_ SCOPA - next wave of materials.pdf

From: Whytock, John (ENERGY)
To: Nucciarone, Michael (ENERGY); Hume, Steen (ENERGY); Cox, Hilary (ENERGY); Schlaepfer, Martin (ENERGY)
Cc: Nutter, George (ENERGY); Lyon, Sam (ENERGY)
Subject: FW: SCOPA - next wave of materials
Date: January 23, 2018 10:49:40 AM
Attachments: SCOPA_Swim Lanes_DRAFT_20180122.xlsx
SCOPA Prep - Jan 23 2018.docx
SCOPA QAs_TBS_20180122 v1.docx
SCOPA QAs_MOE_20180122 v1.docx
SCOPA QAs_MOF_20180122 v1.docx
Response Table_Example_20180122.docx
Long-Form Member Question Template v2.docx

Good morning. We had a teleconference with TBS and Finance this morning about the next wave of products to prepare for Public Accounts. We're expecting there will be a DM regroup the week of Feb 5 and an SoC briefing the week of Feb 12. We're hoping to have drafts of everything ready for sharing with TBS on Monday.

Actions required:

- CB (Adam) will populate the QA template
- CB and ESP can work together on adding detail to the Response Table. This tool is exclusively for briefing the SoC so we should try to cover every angle.
- Martin and Michael, can we please confirm which two friendly questions we want to put forward? Each friendly will require a long scripted answer using the Long Form Member Question template included here. CB can take the first cut at remarks, working with ESP.

Any questions, please let me know.

Thanks

jw

From: Miller, Amanda (TBS)
Sent: January-23-18 9:59 AM
To: Whytock, John (ENERGY); Maloney, Martha (MOF); Spadoni, Peter (MOF); Lyon, Sam (ENERGY); Hendy, Adam (ENERGY)
Cc: DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS); Vrancart, Kate (TBS); Tharani, Alisha (TBS)
Subject: SCOPA - material for 10:00 call

Hi, all,

Attached are the materials for our 10:00 SCOPA check-in discussion.

Regards,

Amanda Miller
Executive Communications Coordinator
Communications Branch, Treasury Board Secretariat

Tel: 416-326-8538

SCOPA_Swim Lanes_DRAFT_20180122.pdf

DRAFT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

SCOPA Prep - Jan 23 2018.pdf

SCOPA Prep
TBS, MOE, MOF Communications
January 23, 2018

See attached for:

- Calendar (updated)
- Swim lanes/roles & responsibilities (updated)
- Comprehensive QA documents:
    - 1. SCOPA QAs – TBS
    - 2. SCOPA QAs – MOE
    - 3. SCOPA QAs – MOF
- Long-form QA template
- Response table example

Follow-up from TBS, MOE, MOF DMs Meeting on Friday, January 19, 2018

- **Role of SOC**
    - Will not be providing introductory remarks
    - Meeting on Jan. 26 to be rescheduled to a later date
    - SOC meeting to focus on responses to SCOPA member questions
- **Seating Arrangement**
    - DMs of TBS, MOF, MOE to sit at speaker's table
    - Fourth chair will be available for subject matter experts
    - SOC will sit in the first row behind the speaker's table
- **Swim Lanes Document**
    - Roles and responsibilities were well received by DMs
        - One change to be made to Rec #9 – remove Finance (done)
- **Summary Status Table**
    - TBS will have revised version by Jan. 26

Next Steps/Action Items

- Meetings to be scheduled:
    - Week of Feb. 5: TBS, MOE, MOF DMs Re-Group
    - Week of Feb. 12: SOC Briefing with TBS, MOE, MOF DMs
    - *TBD: Dry run/Mock session?*
- Product development (see below)

By Monday, January 29, 2018

Comprehensive QA Documents

- See attached for three versions of the QAs:
    - SCOPA QAs – TBS
    - SCOPA QAs – MOF
    - SCOPA QAs – MOE

- These documents are all organized the same way: according to the overall key issues and subheadings included in the “swim lanes”/roles and responsibilities document (attached)
- Each section includes:
    - Overall Topic
        - Subheading
            - Key Messages (Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Based on the Summary Status Table if appropriate.)
            - Chart identifying lead ministries, if applicable
            - QAs that should be included in within this subheading
- It is important that we coordinate all key messages and responses. To do this, it is recommended that the Summary Status Table be used to develop key messages and responses wherever possible.
- It is also important that we build in time to coordinate inter-ministry communications and program-area reviews of each other’s QA documents.
- As per the DMs meeting, we are tracking to have full materials for the week of Jan. 29 in preparation for the meeting with the SOC.

Long-Form Answers

- See attached for a suggested long-form QA template
- As discussed, each ministry will prepare three long-form member questions and answers

To meet timelines for follow-up DM briefing and the SOC briefing, please send your ministry’s completed QA package and three long-form answers to TBS **by end of day Monday, January 29.**

Response Table

For key issues/considerations, TBS will prepare an overall “response table” for ease of reference. This will be a key presentation piece for the meeting with the SOC, and will be based on your QA documents’ key messages, responses, and the Summary Status Table. Attached is an example of how the table will be organized.

SCOPA QAs_TBS_20180122 v1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT1]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

   This conclusion is supported by:

   - The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

     The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

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Two key findings of the panel were:

1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The government is open to continue to discuss the matter in hopes of resolving this matter.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

Commented [AT2]: PA QA Package Sept 2017

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- Thank you for your question.
- The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- I will now pass it over to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imrogno

  to provide more details.

Commented [AT3]: Example

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT4]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

2. **Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?**

   Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

3. **Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?**

   The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.
   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

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in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

4. **The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?**

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)

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- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

5. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

   The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

   The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT5]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

1. **What does TBS think of the AG's decision to audit the IESO's 2017 statements…**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion…

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT6]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

6. **Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?**

   The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

   The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

   PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

   In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

   - *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

   The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

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7. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the CEA, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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8. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the Province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

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The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

9. **The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?**

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of

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Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

AG Recommendation #6: "Legislated Accounting"

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT7]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

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The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

AG Recommendation #9: Arm's Length Trusts

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT8]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

- TBS Key Message 1

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- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT9]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **Q re: TBS records disclosure/process/FOIs**

   Answer…

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- TBS/MOF Key Message 1
- TBS/MOF Key Message 2
- TBS/MOF Key Message 3
- TBS/MOF Key Message 4
- TBS/MOF Key Message 5

Commented [AT10]: To be developed with TBS & MOF

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

Commented [AT11]: QAs to be developed with TBS/MOF

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT12]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The government is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

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The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the governments transactions.

The government is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

AG Recommendation #8: Timeline of Finalization of Financial Statements

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT13]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
Finalization of Financial Statements – Tax	Ministry of Finance

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Revenues	

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

2. **What will the government do to figure out estimation risks associated with corporations tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information the CRA s.

Audit Opinion

- TBS Key Message 1
- TBS Key Message 2
- TBS Key Message 3
- TBS Key Message 4
- TBS Key Message 5

Commented [AT14]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

1. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

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The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

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OTHER

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

Commented [AT1]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

1. **Why did the IESO choose to recognize market accounts?**

   Answer…

2. **Q2 for MOE related to IESO market accounts**

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

3. **Why did the IESO choose to adopt rate-regulated accounting?**

   Answer…

AG Audit of 2017 Statements

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

For QAs related to:	See:

DRAFT

Relationship with Auditor General	Treasury Board Secretariat

4. How will the IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

Answer…

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

5. **OFHP policy Q**

   Answer…

6. **OPG's role in OFHP overview**

   Answer…

7. **OPG Financing Structure**

   Answer…

8. **E.g. Other Qs from "QA_AG Report OFHP_Technical Briefing_Oct 16"**

AG Recommendation #6: "Legislated Accounting"

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

9. **OFHP policy Q**

   Answer…

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AG Recommendation #9: Arm's Length Trusts

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

10. OFHP policy Q

Answer…

Records Disclosure/Process

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

11. Records disclosure Qs

Answer…

Re-Design of Hydro Bills

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

12. Records disclosure Qs

Answer…

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Energy use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

13. Qs that may come up that are not included in the categories above…

Answer…

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- MOF Key Message 1
- MOF Key Message 2
- MOF Key Message 3

Commented [AT1]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister.

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Add any QA re: any relevant MOF records disclosure/FOI/OPQ**

   Answer…

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

DRAFT

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- TBS/MOF Key Message 1
- TBS/MOF Key Message 2
- TBS/MOF Key Message 3
- TBS/MOF Key Message 4
- TBS/MOF Key Message 5

Commented [AT2]: To be developed with TBS & MOF

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

Commented [AT3]: QAs to be developed with TBS/MOF

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- MOF Key Message 1
- MOF Key Message 2
- MOF Key Message 3
- MOF Key Message 4
- MOF Key Message 5

Commented [AT4]: Suggestion to use this section as an opportunity to provide a high-level response for use by your Deputy Minister. Could be based on the Summary Status Table if appropriate.

1. **QA on debt burden/plan, etc.**

   Answer…

Financial Accountability Office Reports

- MOF Key Message 1
- MOF Key Message 2
- MOF Key Message 3
- MOF Key Message 4
- MOF Key Message 5

2. **QAs on relevant FAO reports**

   Answer…

Credit Ratings

- MOF Key Message 1
- MOF Key Message 2
- MOF Key Message 3
- MOF Key Message 4
- MOF Key Message 5

3. **QAs on province's credit rating…**

   Answer…

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

- MOF Key Message 1
- MOF Key Message 2
- MOF Key Message 3
- MOF Key Message 4
- MOF Key Message 5

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

- MOF Key Message 1
- MOF Key Message 2
- MOF Key Message 3
- MOF Key Message 4
- MOF Key Message 5

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

4. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Response Table_Example_20180122_3.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither

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	follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External	Confirm that the	The government's use of external expertise for

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Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	province seeks external expertise when appropriate as a normal course of business.	accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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Long-Form Member Question Template v2.pdf

LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

Commented [AT1]: Deputy Minister name

Commented [AT2]: Subject matter expert name

Commented [AT3]: Topic

QUESTION

- Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan?
- What evidence and processes were used to support this decision?

Commented [AT4]: Suggestion to expand question section to include further context for members to provide the Committee

ANSWER

Commented [AT5]: Suggestion:
- Answer should be approximately 2,500 words to allow for 20 minutes speaking time
- Use sub-headings wherever possible
- 1.5 spacing with bullet points

Deputy Minister Introduction

Commented [AT6]: Suggestion to build in introductory remarks for the Deputy, who can then pass it on to the subject matter expert for a more detailed response.

- The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

- The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

- At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board

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Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

- During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

Cindy Veinot, Provincial Controller

- This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

- The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

Findings of the Panel

- Two key findings of the panel were:

    1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

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2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

Analysis Completed by EY

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

- After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

Conclusion

Commented [AT7]: Suggestion to have the conclusion approximately 260 words long, so that the speaker can immediately jump to it once they have their two minute warning from the Chair

- The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

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- The government is open to continue to discuss the matter in hopes of resolving this matter.

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FW_ SCOPA Ch 2 Q_A (1).pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2 Q/A
Date: February 22, 2018 10:04:06 AM
Attachments: 1. SCOPA QAs_MOE_20180208 - Approved.docx

I believe this is the QA package Steen had actually intended to send.

HC

From: Hume, Steen (ENERGY)
Sent: February 22, 2018 9:17 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2 Q/A

Good morning. Attached is the current package of difficult QAs and some additional ones that I'd like to discuss at 9:30.

Thanks, Steen

1. SCOPA QAs_MOE_20180208 - Approved.pdf

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ SCOPA Ch 2 Q_A (2).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA Ch 2 Q/A
Date:	February 22, 2018 10:08:00 AM
Attachments:	1. SCOPA QAs_MOE_20180208 - Approved.docx

Should be further content to pull form in here.

From: Cox, Hilary (ENERGY)
Sent: February 22, 2018 10:04 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2 Q/A

I believe this is the QA package Steen had actually intended to send.

HC

From: Hume, Steen (ENERGY)
Sent: February 22, 2018 9:17 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2 Q/A

Good morning. Attached is the current package of difficult QAs and some additional ones that I'd like to discuss at 9:30.

Thanks, Steen

1. SCOPA QAs_MOE_20180208 - Approved_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ SCOPA Ch 2 Q_A (3).pdf

From: Lightbody, Ava (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2 Q/A
Date: February 22, 2018 3:17:40 PM

Hi Daniel,

Edits to the QAs (tracked). This is pending the OREC number. \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\Auditor General\SCOPA ch 2 and 3\SCOPA ch 2 questions\CH 3 Additional Questions.docx

Ava

From: Cayley, Daniel (ENERGY)
Sent: February-22-18 9:59 AM
To: Lightbody, Ava (ENERGY)
Subject: FW: SCOPA Ch 2 Q/A

From: Hume, Steen (ENERGY)
Sent: February 22, 2018 9:17 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2 Q/A

Good morning. Attached is the current package of difficult QAs and some additional ones that I'd like to discuss at 9:30.

Thanks, Steen

FW_ SCOPA Ch 2 Q_A .pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA Ch 2 Q/A
Date:	February 22, 2018 9:59:00 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 20180208 - Approved.docx CH 3 Additional Questions.docx

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From: Hume, Steen (ENERGY)
Sent: February 22, 2018 9:17 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2 Q/A

Good morning. Attached is the current package of difficult QAs and some additional ones that I'd like to discuss at 9:30.

Thanks, Steen

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_2.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

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CH 3 Additional Questions.pdf

Additional Questions

Q. When do we start paying the clean energy adjustment?

Q. Does OPG make money running the Fair Hydro Trust?

Q. You say the $4 billion FAO number is wrong? So how much will it cost?

Q. Why are refinancing the Global Adjustment through rate base?

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

FW_ SCOPA Ch 2_QA and friendlies(1).pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies
Date: February 5, 2018 5:27:44 PM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5.docx

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _4.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Moving these programs from the rate base to the tax base removed $X from the rate base….

Formatted: Highlight

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the

beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing.

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Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board*

> *(GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to

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income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

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1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

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As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

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management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
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DRAFT

FW_ SCOPA Ch 2_QA and friendlies(2).pdf

From: Cayley, Daniel (ENERGY)
To: Lightbody, Ava (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies
Date: February 6, 2018 9:09:00 AM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5.docx

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Please edit/update asap this morning.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 5, 2018 5:28 PM
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Happy to chat further if you have any questions.

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HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _5.pdf

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   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Moving these programs from the rate base to the tax base removed $X from the rate base….

Formatted: Highlight

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the

beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing.

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Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board*

> *(GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to

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income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

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1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

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As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

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management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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FW_ SCOPA Ch 2_QA and friendlies(3).pdf

From:	Cayley, Daniel (ENERGY)
To:	Smith, Mike (ENERGY)
Subject:	FW: SCOPA Ch 2_QA and friendlies
Date:	February 6, 2018 10:05:00 AM

From: Cayley, Daniel (ENERGY)
Sent: February 6, 2018 9:54 AM
To: Cox, Hilary (ENERGY); Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Now with the language:

Recognizing that the electricity infrastructure that has been built will last for many decades to come, the province would refinance those capital investments to ensure that system costs are more equitably distributed over time. In addition, a number of important programs, such as the Ontario Electricity Support Program (OESP), will now be funded by the government instead of by ratepayers.

The province will also launch a new Affordability Fund, enhance the existing OESP and Rural or Remote Rate Protection (RRRP) program and provide on-reserve First Nations households with a delivery credit. These new measures will cost the government up to $2.5 billion over the next three years.

From: Cayley, Daniel (ENERGY)
Sent: February 6, 2018 9:53 AM
To: Cox, Hilary (ENERGY); Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hilary – the below is out of date and should go to SNAP.

From: Cox, Hilary (ENERGY)
Sent: February 5, 2018 5:28 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Tim and Daniel –
A couple of additional edits/bullets for the SCOPA chapter 2 Friendlies and QA – as below.

I can't seem to track down these numbers, so am hoping you can make the needed edits. I've attached the friendlies (if you can edit this one, I'll flow the revised language over to the QA pkg) with yellow highlight where the new info should go.

Hoping we can get this in first thing in the morning.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 5, 2018 5:10 PM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi there,

Ran the revisions past the Deputy again, and he would like the program costs to be included as well….i.e. moving these programs from the rate base to the tax base removed $ from the rate base, as well as listing the programs and dollar amounts.

That, plus the 8% rebate, equates to $ amount out of rate base.

The Deputy seems to be good with the GA financing portion of the response, but would like the first part to be built out more.

Is this something that we have on hand?

Thanks,
Mike

From: Hendy, Adam (ENERGY)
Sent: February 5, 2018 5:01 PM
To: Cox, Hilary (ENERGY)
Cc: Nucciarone, Michael (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hey Michael,

Did the Deputy get a chance to look at these, or is it looking more like tomorrow morning?

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: February-05-18 12:11 PM
To: Nucciarone, Michael (ENERGY); Hendy, Adam (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi Michael –

ESPD ADM approved revisions attached. These were taken from previously approved March 1 (OFHP tech briefing) QA.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 5, 2018 9:50 AM
To: Cox, Hilary (ENERGY); Hendy, Adam (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi there,

Got some more feedback from the Deputy on the QAs for chapter 2.

For the OFHP questions, the Deputy would like to start with the electicity programs that were moved from the ratebase to the tax base, the rational as to why that was appropriate, and list the programs. Following that, mention the re-financing and shifting costs from the rate base to future years and rational behind that.

In the tracked document I think some of that wording is there, but may have been removed, so hoping there is wording previously developed that we can pull from.

Happy to chat further if you have any questions.

Thanks,
Mike

From: Cox, Hilary (ENERGY)
Sent: February 2, 2018 6:01 PM
To: Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Comms and DMO –
Attached are the revised (per DM request) and ESPD ADM approved Chapter 2 friendlies and QA.

HC

FW_ SCOPA Ch 2_QA and friendlies(4).pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: SCOPA Ch 2_QA and friendlies
Date:	February 8, 2018 1:01:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5 DOCX.DOCX.DOCX

Here you go.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 8, 2018 12:00 PM
To: Cox, Hilary (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Hilary,

Chatted with the Deputy regarding the $2.5 billion, and he is comfortable with the figure. He asked if there is a table or graphic that breaks out the $2.5 billion?

Thanks,
Mike

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _6.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs were forecast[3] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers. In addition, the ongoing funding of these measures through the tax-base will provide ongoing benefits to rate payer into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

[3] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the

Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

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> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

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To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

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3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

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In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

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As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs were forecast[3] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers. In addition, the ongoing funding of these measures through the tax-base will provide ongoing benefits to rate payer into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

[3] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;

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- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[4]. The preliminary estimate from March 2017 was about $28 billion[5].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[6] to approximately $20 billion[7]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

[4] Ministry of Energy
[5] Ministry of Energy, submission to Financial Accountability Officer
[6] Ministry of Energy
[7] Ministry of Energy

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[11] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[12]. The preliminary estimate from March 2017 was about $28 billion[13].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[14] to approximately $20 billion[15]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

[11] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[12] Ministry of Energy
[13] Ministry of Energy, submission to Financial Accountability Officer
[14] Ministry of Energy
[15] Ministry of Energy

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[16] to less than $19 billion[17].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70

[16] Ministry of Energy
[17] Ministry of Energy

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billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs were forecast[18] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers.

[18] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

In addition, the ongoing funding of these measures through the tax-base will provide ongoing benefits to rate payer into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

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For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[19] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

[19] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

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Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

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Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat

	Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ SCOPA Ch 2_QA and friendlies.pdf

From:	Cox, Hilary (ENERGY)
To:	Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY)
Subject:	FW: SCOPA Ch 2_QA and friendlies
Date:	February 2, 2018 6:00:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -ADM -SH.docx SCOPA QAs_MOE_20180129 - EPE-ADM.DOCX.DOCX

Hi Comms and DMO –
Attached are the revised (per DM request) and ESPD ADM approved Chapter 2 friendlies and QA.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _7.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   ~~Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   ~~Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

   ~~Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

   ~~Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

To address the impact of our electricity system investments on ~~relieve the current burden on~~ consumers, the following ~~two streams of~~ initiatives ~~where~~are being ~~are being~~ undertaken.

First, ~~In the early years,~~ a portion of Global Adjustment (GA) costs ~~will be~~is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

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In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

Second, ~~Thethe~~ province has introduced rate relief programs and expanded existing ones.

In addition, ~~A~~a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced~~ing~~ the existing OESP, and is providing on-reserve First Nations with a delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

~~In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.~~

~~Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.~~

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

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In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in

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securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and

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7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

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We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

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In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

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For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

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- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken.

First, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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In developing the policy to refinance the ~~Global Adjustment (~~GA~~)~~, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Second, the province has introduced rate relief programs and expanded existing ones.

In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.

~~GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.~~

Commented [AL1]: Covered above

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

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If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. ~~Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.~~

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken.

First, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts.

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Second, the province has introduced rate relief programs and expanded existing ones.

In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency

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and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

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- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

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Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

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Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

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The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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From:	Cox, Hilary (ENERGY)
To:	Lightbody, Ava (ENERGY); Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits
Date:	February 2, 2018 4:21:44 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits.docx

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From: Hume, Steen (ENERGY)
Sent: February 2, 2018 4:19 PM
To: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _8.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. ~~Prices have~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

To address the impact on ~~relieve the current burden on~~ consumers, the following ~~two streams of~~ initiatives where ~~are being~~ undertaken.

First, ~~In the early years,~~ a portion of Global Adjustment (GA) costs will be refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

Second, ~~. The~~the province has introduced rate relief programs and expanded existing ones.

In addition, ~~A~~a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

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OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

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OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
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> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

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From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

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In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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FW_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ...(2).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY)
Subject:	FW: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5
Date:	February 6, 2018 10:42:13 AM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2).docx

Hi Tim –
Please mention your concerns on this one to Steen when the foundational is finished. I suspect he'll still want the $2.5 bn figure (with approximately), but perhaps you can articulate the rest of your concerns.

HC

From: Cox, Hilary (ENERGY)
Sent: February 6, 2018 10:04 AM
To: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

I've included the 2.5 billion that Steen and the DM have requested. Please fill in the blank highlighted in yellow (for the OREC number) and return for ADM approval.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _9.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

These new measures will cost the government up to $2.5 billion over the next three year. That, plus the 8% rebate equates to $XX out of the rate base.

Formatted: Highlight

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the

beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing.

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Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

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This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

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Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

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In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

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- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

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FW_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ...(3).pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5
Date: February 6, 2018 10:56:00 AM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx

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Hilary, see below for the figures, and also Daniel's concerns (which I echo) about using these figures. They are out of date, and not a "shift from the ratebase". I see no upside and lots of downside if they're used. I didn't see your other email until I'd already left so I haven't discussed this with Steen.

From: Cayley, Daniel (ENERGY)
Sent: February-06-18 10:23 AM
To: Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

Tim – edits in this version after consulting with Mike Smith (I still feel strongly that this should be shared for SNAP approval). Of note, we should not be characterizing the total amount as a shift (ie. "out of the rate base"), as it includes funding from the expanded/new programs that were never funded from the ratebase. The updated OREC forecast as shared with TB in October is below. Overall, I think using this number is a bad idea, given that the social program estimate is out of date (as per Mike) and we know that the OREC forecast overestimates the cost of the program.

FY	ENERGY cost estimate – March 2017 ($M)	ENERGY cost estimate – Oct 2017 ($M)
2017-18	939	883
2018-19	882	860
2019-20	882	861

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 6, 2018 10:04 AM
To: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

I've included the 2.5 billion that Steen and the DM have requested. Please fill in the blank highlighted in yellow (for the OREC number) and return for ADM approval.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _10.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

These new measures ~~will~~were forecast to cost the government up to $2.5 billion over the ~~next~~first three fiscal years of the OFHP. When you include ~~That, plus~~ the 8% rebate, the total for this period comes to ~~equates~~up to $~~XX~~5.1 billion~~ out of the rate base~~.

Commented [CD(1]: OREC is $2.6B for fiscal year 17-18 through fiscal year 19-20 under the October 2017 forecast that was shared with TB.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

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With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

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Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*

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> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

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We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

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When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

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FW_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ....pdf

From: Cox, Hilary (ENERGY)
To: Hume, Steen (ENERGY)
Subject: FW: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE
Date: February 2, 2018 3:38:00 PM
Attachments: SCOPA QAs_MOE_20180129 - DM Edits - EPEv2.docx

Hi Steen –
Revised Chapter 2 QA per your last comment to staff.

HC

SCOPA QAs_MOE_20180129 - DM Edits - EPEv2.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

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For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that any deferred electricity system costs should be borne by the rate-base and not the tax-base.
- GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.
- ~~The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

~~The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills.~~ Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable. Prices have increased because our electricity system is being transformed.

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that wouldto ensure costs are shared more evenly over the years ahead.~~

Ontario's Fair Hydro Plan (OFHP) has lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced in January 2017.

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.
~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. GA refinancing operates under a financial and accounting framework that ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

Ontario's Fair Hydro Plan also includes a number of additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanc~~ing~~ed the existing OESP, and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~ The plan includes measures that benefit larger consumers, such as the expansion of the Industrial Conservation Initiative (ICI).

~~Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.~~

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~~In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.~~

~~GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.~~

~~OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.~~

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

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Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

~~The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.~~

Since 2003, nearly $70 billion -has been invested in the electricity system, including more than $37 -billion in electricity generation to ensure the system is clean and reliable. Prices have increased because our electricity system is being transformed. ~~Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system~~

Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced in January 2017.

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[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts~~The majority of the province's electricity generators have 20-year contracts~~. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit them.

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

Ontario's Fair Hydro Plan also includes a number of additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will now be~~are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, has enhanced~~ing~~ the existing OESP and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

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Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

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Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

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The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018...(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL
Date:	February 28, 2018 11:15:00 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL.DOCX

From: Imbrogno, Serge (ENERGY)
Sent: February 28, 2018 9:42 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL

Hi. Can you share with staff for review. In the meantime, accept the changes, reformat if necessary and print me a copy. Thanks

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_3.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   ~~*Policy Objectives of Ontario's Fair Hydro Plan*~~

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for the OFHP.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   ~~Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history.~~ Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though~~t~~ the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflect~~ed~~s the life of the assets.

   To better understand ~~of~~ the Ontario Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets: ~~The three key components that are included in the Ontario's Fair Hydro Plan are:~~

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~1.~~ The first bucket is t~~T~~he Ontario Rebate for Electricity Consumers (OREC) program~~: The (OREC) program, which commenced on January 1, 2017, provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount.~~

~~2.~~ The second bucket is ~~Helping vulnerable electricity consumers by~~ enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

~~3.~~ The third bucket is r~~R~~efinancing the Global Adjustment (GA) over a longer term period ~~for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms~~of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

~~The Ontario Rebate for Electricity Consumers:~~

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. That's an 8% rebate provides ~~for Ontario families,~~ an average savings of approximately $130 annually or $11 each month.

~~This is part of Ontario's plan to help people with the costs of everyday living by reducing electricity costs. Th~~The~~e~~ rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms~~.~~

~~•~~ The OREC has an approved 2017-18 expenditure of $939M.

~~Electricity consumers eligible for the 8 per cent rebate are also eligible for GA refinancing, including residential consumers, farms, most small businesses, long-term care homes and condominiums. Eligible consumers who have signed contracts with electricity retailers are also eligible.~~

The second bucks of initiatives consists of ~~E~~enhancing electricity s~~S~~ocial p~~P~~rograms and shifting costs to the taxbase.~~:~~

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Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following~~funding through~~ ~~assistance~~ programs ~~including~~:

- ~~Establishing a~~ A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

  - ~~Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program~~ of the old Ontario Hydro and has existed in its current form since 2001.

- About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

- This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- ~~Establishing the new First Nations Delivery Credit.~~

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- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

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- The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.

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Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

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- All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

~~*Refinancing the Global Adjustment*~~
And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that ~~we've~~ have been made to build a clean and reliable electricity system. This more fairly shares the cost of ~~our~~ these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the

electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. ~~We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.~~

~~Now, I would like to go into a bit more detail on the development of the Ontario Fair Hydro Plan and the role of Ontario Power Generation:~~

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

~~3.~~1. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

~~4.~~2. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

DRAFT

FW_ SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018...(2).pdf

From:	Hume, Steen (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	FW: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL
Date:	February 28, 2018 11:18:44 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL.DOCX

This is what should have been fact checked.

From: Schlaepfer, Martin (ENERGY)
Sent: February 28, 2018 11:16 AM
To: Hume, Steen (ENERGY)
Subject: FW: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL

From: Imbrogno, Serge (ENERGY)
Sent: February 28, 2018 9:42 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL

Hi. Can you share with staff for review. In the meantime, accept the changes, reformat if necessary and print me a copy. Thanks

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_4.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   ~~*Policy Objectives of Ontario's Fair Hydro Plan*~~

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for the OFHP.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   ~~Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history.~~ Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though~~t~~ the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflect~~ed~~s the life of the assets.

   To better understand ~~of~~ the Ontario Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets: ~~The three key components that are included in the Ontario's Fair Hydro Plan are:~~

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~1.~~ The first bucket is t~~T~~he Ontario Rebate for Electricity Consumers (OREC) program~~: The (OREC) program, which commenced on January 1, 2017, provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount.~~

~~2.~~ The second bucket is ~~Helping vulnerable electricity consumers by~~ enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

~~3.~~ The third bucket is r~~R~~efinancing the Global Adjustment (GA) over a longer term period ~~for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms~~of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

~~The Ontario Rebate for Electricity Consumers:~~

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. That's an 8% rebate provides ~~for Ontario families,~~ an average savings of approximately $130 annually or $11 each month.

~~This is part of Ontario's plan to help people with the costs of everyday living by reducing electricity costs. Th~~The~~e~~ rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms~~.~~

~~•~~ The OREC has an approved 2017-18 expenditure of $939M.

~~Electricity consumers eligible for the 8 per cent rebate are also eligible for GA refinancing, including residential consumers, farms, most small businesses, long-term care homes and condominiums. Eligible consumers who have signed contracts with electricity retailers are also eligible.~~

The second bucks of initiatives consists of ~~E~~enhancing electricity s~~S~~ocial p~~P~~rograms and shifting costs to the taxbase.~~:~~

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Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following~~funding through~~ ~~assistance~~ programs ~~including~~:

- ~~Establishing a~~ A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

  - ~~Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program~~ of the old Ontario Hydro and has existed in its current form since 2001.

- About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

- This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- ~~Establishing the new First Nations Delivery Credit.~~

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- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

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- The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.

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Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

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- All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

~~*Refinancing the Global Adjustment*~~
And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that ~~we've~~ have been made to build a clean and reliable electricity system. This more fairly shares the cost of ~~our~~ these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the

electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. ~~We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.~~

~~Now, I would like to go into a bit more detail on the development of the Ontario Fair Hydro Plan and the role of Ontario Power Generation:~~

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

~~3.~~1. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

~~4.~~2. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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FW_ SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018....pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)
Date:	February 28, 2018 10:43:28 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)-esp.DOCX

Hilary, edits attached.

From: Cayley, Daniel (ENERGY)
Sent: February-28-18 10:42 AM
To: Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Now with the correct attachment.

From: Cayley, Daniel (ENERGY)
Sent: February 28, 2018 10:41 AM
To: Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 10:06 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Hi Guys -
Please give a quick look at the DM's (hopefully final) revised friendly for today and let me know if everything's ok.

As quickly as possible please.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 9:54 AM
To: Cox, Hilary (ENERGY); Yordi, Samer (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Hi Hilary, Sam,

The Deputy tweaked the friendly QA for SCOPA further last night. Sharing the latest.

Can staff review to ensure everything is accurate.

Happy to chat if you have any questions.

Thanks,
Mike

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_5.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for ~~the OFHP~~Ontario's Fair Hydro Plan.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though the introduction of new and enhanced electricity social programs, such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflects the life of the assets.

   To better understand ~~the~~ Ontario's Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets:

   The first bucket is the Ontario Rebate for Electricity Consumers (OREC) program

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

The second bucket is enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

The third bucket is refinancing the Global Adjustment (GA) over a longer term period of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. ~~That's an 8% rebate~~This provides an average savings of approximately $130 annually or $11 each month. The rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes ~~about~~ nearly five million residential consumers, small businesses and farms. The OREC has an approved 2017-18 expenditure of $939M.

Commented [CD(1]: Note that while this is still the official approved expenditure, our current forecast is $883M and is subject to further reduction.

The second buck~~s~~et of initiatives consists of ~~of enhancing electricity social programs and shifting costs to the taxbase.~~

Commented [CD(2]: Edited to remove repetition

~~H~~helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following programs:

- A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.
  - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill

credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.
    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.
    - Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

Commented [CD(3]: Original STBS note showed an average of about $1.6B – defer to SNAP/CSD

And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that have been made to build a clean and reliable electricity system. This more fairly shares the cost of these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan ~~(OFHP)~~ is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the

costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Development of Ontario's Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro ~~Plan~~ Trust) that will manage the debt obligations associated with Global Adjustment ~~(GA)~~ refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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~~Ontario Power Generation (~~OPG~~)~~ is uniquely positioned to be the ~~Financial Service Manager (~~FSM~~)~~, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

~~Ontario Power Generation (~~OPG~~)~~ has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

~~Ontario Power Generation (~~OPG~~)~~ currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the ~~Ontario Energy Board (~~OEB~~)~~ with extensive experience in regulatory deferral and variance accounts.

~~Ontario Power Generation (~~OPG~~)~~ has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost ~~to Ontario Power Generation (~~OPG~~)~~. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, ~~Ontario Power Generation (~~OPG~~)~~ completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

~~Ontario Power Generation (~~OPG~~)~~ has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for Global Adjsutment refinancing ~~Ontario's Fair Hydro Plan (OFHP) initiative~~. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

~~Ontario Power Generation (~~OPG~~)~~ has a strong track record of producing high-quality financial reports on a timely basis. In addition, ~~Ontario Power Generation (~~OPG~~)~~ will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, ~~Ontario Power Generation (~~OPG~~)~~ is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

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Finally, ~~Ontario Power Generation's (~~OPG)~~-~~Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Fair Hydro Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario's Fair Hydro Plan ~~(OFHP)~~ is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment ~~(GA)~~ refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*

> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

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We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

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When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

2. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   <u>Response</u>

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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FW_ SCOPA Chapter 3 - FINAL(1).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA Chapter 3 - FINAL
Date:	March 2, 2018 12:48:00 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

fyi

From: Cox, Hilary (ENERGY)
Sent: March 2, 2018 12:48 PM
To: Nucciarone, Michael (ENERGY); Whytock, John (ENERGY); Hendy, Adam (ENERGY)
Cc: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - FINAL

Hi DMO and Comms –
Attached is the current package of KMs and QAs for SCOPA Chapter 3. This incorporates QAs from IESO. I've reached out to OEB to ask for materials that they are preparing. Will let you know as I hear back.

HC

SCOPA Chapter 3 - FINAL_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - FINAL(2).pdf

From:	Cox, Hilary (ENERGY)
To:	Jordan Penic (jordan.penic@ieso.ca); David Barrett; Mary Anne Aldred; Martine Band; Neil Brodie
Cc:	Whytock, John (ENERGY)
Subject:	FW: SCOPA Chapter 3 - FINAL
Date:	March 2, 2018 12:49:00 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

Hello All –
Attached is the current package of key messages and QAs for next week's SCOPA chapter 3 appearance. IESO, this includes the KMs and QAs you had previously provided as well as a few additional Ministry QAs.

Any edits/updates and additional questions should be added to this version.

Many thanks,

Hilary

SCOPA Chapter 3 - FINAL_1_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - FINAL(3).pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - FINAL
Date: March 5, 2018 3:52:15 PM
Attachments: SCOPA Chapter 3 - FINAL.docx

Hi Guys –
Attached is the current draft of the SCOPA chapter 3 QA. OEB is making some revisions to some wording. In the meantime, please review the QA to ensure there is adequate distinction (in the section on powers of the OEB/MSP and MACD) between language on investigation vs. audit and the powers being inscribed in legislation. We need to be very precise in this response.

Please also add in the new question I requested of Tim regarding OPG.

DM has requested these come in by EOD.

HC

SCOPA Chapter 3 - FINAL_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - FINAL(4).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA Chapter 3 - FINAL
Date:	March 5, 2018 3:54:00 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

See below rush request.

From: Cox, Hilary (ENERGY)
Sent: March 5, 2018 3:52 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - FINAL

Hi Guys –
Attached is the current draft of the SCOPA chapter 3 QA. OEB is making some revisions to some wording. In the meantime, please review the QA to ensure there is adequate distinction (in the section on powers of the OEB/MSP and MACD) between language on investigation vs. audit and the powers being inscribed in legislation. We need to be very precise in this response.

Please also add in the new question I requested of Tim regarding OPG.

DM has requested these come in by EOD.

HC

SCOPA Chapter 3 - FINAL_3.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - FINAL(5).pdf

From:	Christie, Tim (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Chapter 3 - FINAL
Date:	March 5, 2018 3:55:17 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

From: Cox, Hilary (ENERGY)
Sent: March-05-18 3:52 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - FINAL

Hi Guys –
Attached is the current draft of the SCOPA chapter 3 QA. OEB is making some revisions to some wording. In the meantime, please review the QA to ensure there is adequate distinction (in the section on powers of the OEB/MSP and MACD) between language on investigation vs. audit and the powers being inscribed in legislation. We need to be very precise in this response.

Please also add in the new question I requested of Tim regarding OPG.

DM has requested these come in by EOD.

HC

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - FINAL(6).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	FW: SCOPA Chapter 3 - FINAL
Date:	March 5, 2018 3:57:15 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

Latest QA package that is being revised.

From: Cox, Hilary (ENERGY)
Sent: March 2, 2018 12:48 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>; Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>
Subject: FW: SCOPA Chapter 3 - FINAL

Hi DMO and Comms –
Attached is the current package of KMs and QAs for SCOPA Chapter 3. This incorporates QAs from IESO. I've reached out to OEB to ask for materials that they are preparing. Will let you know as I hear back.

HC

SCOPA Chapter 3 - FINAL_5.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - FINAL.pdf

From:	Cox, Hilary (ENERGY)
To:	Nucciarone, Michael (ENERGY); Whytock, John (ENERGY); Hendy, Adam (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Chapter 3 - FINAL
Date:	March 2, 2018 12:47:37 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

Hi DMO and Comms –
Attached is the current package of KMs and QAs for SCOPA Chapter 3. This incorporates QAs from IESO. I've reached out to OEB to ask for materials that they are preparing. Will let you know as I hear back.

HC

SCOPA Chapter 3 - FINAL_6.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - March 5 - Clean - QA package(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Subject:	FW: SCOPA Chapter 3 - March 5 - Clean - QA package
Date:	March 6, 2018 1:52:08 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean - QA package.docx

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Hi Michael -
Couple of edits to the chapter 3 KMs and ADM approved.

HC

Sent with BlackBerry Work
(www.blackberry.com)

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Date: Tuesday, Mar 06, 2018, 1:50 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: SCOPA Chapter 3 - March 5 - Clean - QA package

Hi. I'm good with the attached version.

Thanks,

SCOPA Chapter 3 - March 5 - Clean - QA packag.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- ~~However, we disagree with a number of the report's findings, including:~~

  - ~~The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and~~

  - ~~The comments on the Industrial Conservation Initiative (ICI).~~

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

- With respect to the Industrial Conservation Initiative (ICI), the program benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Industrial Conservation Initiative (ICI):

- ~~The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.~~

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

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- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

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- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

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- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - March 5 - Clean - QA package.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: SCOPA Chapter 3 - March 5 - Clean - QA package
Date:	March 6, 2018 1:01:00 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean - QA package.docx

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Hi Steen –
DM's requested edits to the KMs. You good with these?

HC

SCOPA Chapter 3 - March 5 - Clean - QA packag_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- ~~However, we disagree with a number of the report's findings, including:~~

  - ~~The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and~~

  - ~~The comments on the Industrial Conservation Initiative (ICI).~~

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

- With respect to the Industrial Conservation Initiative (ICI), the program benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Industrial Conservation Initiative (ICI):

- ~~The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.~~

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

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- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

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- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

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- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - Prep Meeting .pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY)
Subject:	FW: SCOPA Chapter 3 - Prep Meeting
Date:	February 9, 2018 9:24:46 AM
Attachments:	SCOPA Chapter 3 - Swim Lanes- DRAFT - 20180125_DRAFT.XLSX Status Table_Ch 3 of AG AR_SCOPA_Draft.docx SCOPA_QA_Friendly_Chapter 3.docx Agenda _SCOPA Chapt 3_Feb 9.docx

Here you go

From: Hume, Steen (ENERGY)
Sent: February 8, 2018 5:51 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Cox, Hilary (ENERGY); Whytock, John (ENERGY)
Subject: SCOPA Chapter 3 - Prep Meeting

Hi Martin: as discussions, attached are the proposed materials for tomorrow meeting with IESO and OEB re SCOPA Chapter 3. We should likely treat these as "works in progress".

- Meeting Agenda
- Swim Lanes Chart
- Response to OAG's Recommendations Chart
- Friendly Q&A

If you have any questions, let me know. Cheer, Steen

SCOPA Chapter 3 - Swim Lanes- DRAFT - 2018012.pdf

Key Issues	Ministry of Energy	IESO				OEB	
	Deputy Minister	Pres. & CEO, IESO	COO & VP, Planning, Acquisition and Operations	Director, Market Assessment and Compliance Division	VP Information and Technology Services (Acting)	Chair &CEO, OEB	Chair, Market Surveillance Panel
	Serge Imbrogno	Peter Gregg	Leonard Kula	Glenn McDonald	Sorana Ionescu	Rosemarie Leclair	Glen Leslie
Market Oversight and Cybersecurity							
Rec #1 a) Implement MSP recommendations		X					
Rec #1 b) Amend market rule		X					
Rec #2 Revoke and refer market rules						X	
Rec #3 Review legislative power of OEB	X						
Rec #4 Review impact of ICI	X						
Rec #5 Provide RTGC analysis to OEB			X				
Rec #6 Implement MSP recommendations on RTGC			X				
Rec #7Implement MSP recommendations on CMSC			X				
Rec #8 a) Prohibit reps from Market Renewal working group			X				
Rec #8 b) Consumper reps on Market Renewal working group			X				
Rec #8 c) Report market Renewal results			X				
Rec #9 a) Assess MACD resources				X			
Rec #9 b) Attract MACD staff				X			
Rec #10 Give MACD legislative authority	X						
Rec #11 Replace MACD computers				X			
Rec #12 Change MACD reporting structure				X			
Rec #13 Cybersecurity Executive role		X					
Rec #14 Increase Cybersecurity staff		X					
Rec #15 Involve Cybersecurity staff					X		
Rec #16 Procure technology					X		
Rec #17 a) Vendor Cybersecurity policy					X		
Rec #17 b) Security risk assessments					X		
Rec #18 a) Encrypt backup tapes					X		
Rec #18 b) Store backup tapes					X		

* Note: Ministry and Agencies to determine appropriate representation

Status Table_Ch 3 of AG AR_SCOPA_Draft.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

SCOPA_QA_Friendly_Chapter 3.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

The Industrial Conservation Initiative (ICI) allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It should be noted that the Industrial Conservation Initiative (ICI) is a voluntary program and eligible consumers are able to opt in or out in June of each year.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, Industrial Conservation Initiative (ICI) participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to regulated and contracted generators to ensure they can recover their fixed costs, including nuclear, hydro, natural gas, and renewables. In addition, Global Adjustment (GA) also recovers costs associated with running conservation programs in the province.

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time, including variable costs incurred by generators to produce electricity, such as fuel. If HOEP is insufficient to cover long term capital costs incurred by generators as included in their regulated or contracted rates, Global Adjustment (GA) makes up the difference. Conversely, when market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

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As a result, Global Adjustment (GA) varies from month to month, responding to changes in the Hourly Ontario Energy Price (HOEP) compared to contracted and regulated prices. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in Ontario electricity demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

The Global Adjustment (GA) has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

All consumers pay Global Adjustment (GA), however there is variation in how different types of customers are charged. All non-ICI participants pay GA as a volumetric charge, either through the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) or as a separate line item on their bill. This means that they pay the same GA rate on every kilowatt-hour consumed.

However, participants in the Industrial Conservation Initiative (ICI) program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. Participants work to forecast when system peak hours will occur, which depends on a number of factors that influence when Ontarians consume electricity, such as time of day, time of year, and the weather, and then work to reduce consumption during those hours using any number of strategies, such as changing the operating profiles of industrial equipment.

If a Class A consumer is assessed, for example, to be responsible for one per cent of Ontario's peak demand for the five highest hours in a year, they will be charged for one per cent of total GA costs each month through the next year.

This allows participants to manage their GA costs by consuming less during peak hours. As a result, Industrial Conservation Initiative (ICI) participants pay for the electricity system costs that are recovered through the GA – costs which increase with higher system peak demand – in proportion to their contribution to those costs.

Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative (ICI) provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial. By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

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Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs, because they are contributing to the incurrence of electricity system costs associated with higher peak demand. Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs. The recovery mechanism under Industrial Conservation Initiative (ICI) maintains this relationship between a consumer's electricity costs and their contribution to provincial peak demand.

An electricity system's long run costs – as opposed to short run costs, such as fuel – are largely a function of capital investments in the infrastructure required to meet maximum demand. Therefore it follows that the recovery of long term costs should be a function of consumption during peak demand periods. Simply put, Industrial Conservation Initiative (ICI) is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, Industrial Conservation Initiative (ICI) works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

Further, because Industrial Conservation Initiative (ICI) helps industrial consumers lower electricity prices by one-third on average, it helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to Industrial Conservation Initiative (ICI), indicative industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, as reported by the U.S. Energy Information Administration.

It is also important to note that we have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. To this end, we have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

History of Industrial Conservation Initiative and Expansions

Initially Industrial Conservation Initiative (ICI) was available to consumers with peak demand above five megawatts (MW). Effective July 2015, Class A consumer status was extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors, with the North American Industry Classification System (NAICS) codes beginning with 21, 31-22, 518, 1114, and 493120.

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In January 2017, regulatory amendments took effect that further expanded the Industrial Conservation Initiative (ICI) program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the prior threshold of three megawatts. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the Industrial Conservation Initiative (ICI) has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. These consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 Industrial Conservation Initiative (ICI) participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Expanding participation in the Industrial Conservation Initiative (ICI) program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The Industrial Conservation Initiative (ICI) has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to:

- The peak electricity demand of a city roughly the size of Mississauga, OR
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area, OR
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016.

The Ontario electricity system is now well placed to continue to meet demand for electricity and remain focussed on taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in this objective. The contracts for several Non-Utility Generator (NUG) facilities have recently ended and

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these facilities have not been re-contracted. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast.

Future reductions in peak demand due to Industrial Conservation Initiative (ICI) are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

The Industrial Conservation Initiative (ICI) is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

Q. Ontario Energy Board Review Exercise

Commented [HS(1]: SNAP to prepare friendly question

Response

Thank you members of the Committee. I understand there is interest in the Auditor General's recommendations regarding the Ontario Energy Board's oversight of the Independent Electricity System Operator's market rules.

I understand this interest, given the critical role the Ontario Energy Board (OEB) plays.

The Ontario Energy Board (OEB) is the Province's regulator of the energy sector in Ontario. Its stated mission is to promote a viable, sustainable and efficient energy sector that serves the public interest, and protect consumers with respect to prices, adequacy, reliability and quality of service.

I would like to inform the Committee of a new initiative announced by the Ministry that will be reviewing the Ontario Energy Board's (OEB) role in the electricity sector, including its market oversight mandate.

On December 14, 2017, Minister Thibeault announced the formation of the *Ontario Energy Board Modernization Review Panel*.

The Panel, Chaired by Richard Dicerni, will spend 2018 consulting with consumers, industry, Local Distribution Companies, innovators, and economic regulators from other

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jurisdictions to deliver an action plan for regulatory modernization. It will report to the Minister by the end of 2018.

The OEB Modernization Review Panel is a recognition that as Ontario seeks to renew its energy systems for the future, a fundamental and foundational review of the Ontario Energy Board (OEB) is necessary to guide and support the immense technology change that is coming.

Personal home electricity storage, more families driving electric vehicles, and the presence of more distributed energy resources with the increase in net-metering all hold the potential to disrupt our electricity system and, by extension, our regulatory framework.

This is a reality reflected in our 2017 Long-Term Energy Plan (2017 LTEP). Our 2017 LTEP calls for the Ontario Energy Board (OEB) to build off the work it has achieved to-date and continue to enhance the ability of the regulatory framework to accommodate new technologies.

In conducting this review of the Ontario Energy Board (OEB), we will take a longer, more strategic perspective. This effort will look to optimize the Board's efforts across all of its activities, and thus goes beyond any single policy consultation such as LTEP. It is important to recognize that this Panel is not a critique of our existing structures or systems. It's an awareness that the status quo is changing.

Given that the evolution of the sector will take place over decades, and that there will be a need to remain flexible in response to innovations we cannot predict yet, the Ministry is asking for the best advice on how best to respond to the regulatory challenges and opportunities at hand.

The scope of the OEB Modernization Review Panel will be significant, in recognition of the challenges ahead. Government will not presume or attempt to direct the outcomes. And Richard Dicerni, with considerable experience in both government and the energy sector, is the right choice to lead this critical task.

Richard is a former Deputy Minister at both the Ontario and federal levels, a former President of Ontario Power Generation and former Secretary of Cabinet in Alberta. Richard is also a recent recipient of the Order of Canada.

Additional Panel members will be appointed in the future. Under Richard's leadership, I'm confident the Ministry will receive a set of recommendations that will optimize the OEB's mandate and activities within the entire energy sector.

I would now like to explain the background work by the Ministry that led to the creation of this Panel, as well as some of the initial expectations of how it will go about its work.

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Mandate Review

It is important to note that the Ontario Energy Board (OEB) is an independent, quasi-judicial tribunal that conducts it work through public hearings and consultations.

It derives its legal authority and responsibility to act as the Province's energy regulator from Provincial legislation set by the government, primarily through the *Ontario Energy Board Act, 1998* (OEBA) and the *Electricity Act, 1998*.

The Ontario Energy Board's (OEB) responsibilities can be grouped into 3 main areas:

1. Market Regulation, which includes setting, rates, licencing market participants, and monitoring ongoing-financial operating performance of utilities.

2. Protecting Consumers, which includes enforcing *the Energy Consumer Protection Act, 2010* and monitoring compliance, keeping consumers informed, and undertaking complaint investigation; and

3. Policy initiatives, which includes developing codes, rules and guidelines, consulting on significant energy issues and emerging trends, and providing advice to government.

As a provincial agency prescribed under the Agencies and Appointments Directive of Treasury Board, the Ontario Energy Board (OEB) must undergo a process called a Mandate Review once every seven years. A Mandate Review is a chance for Ministries to ensure that the activities of their agencies align with the public interest.

A mandate review is an examination of the agency, with a view to answer the following questions:

1. Whether the provincial agency is carrying out the activities and operations that represent its mandate;

2. Whether, and the extent to which, the mandate continues to be relevant to the goals and priorities of the Government of Ontario; and

3. Whether all or part of the functions of the provincial agency are best performed by the provincial agency, or whether they might be better performed by a ministry, another provincial agency, or another entity.

The Ministry completed a Mandate Review of the Ontario Energy Board (OEB) in mid-2017, in parallel with the development of the Long-Term Energy Plan (LTEP). This review found that on the whole, the Ontario Energy Board's (OEB) mandate, initiatives and activities are aligned with the evolving needs of the Ministry. It reconfirmed that the

work that the Ontario Energy Board (OEB) does is both necessary and relevant to the public interest.

The Mandate Review provided a number of recommendations on how the Ontario Energy Board (OEB) improve the sophistication of its business planning, service standards, and performance evaluation. Recommendations focused on the composition and structure of membership of the board and the management committee, and governance and oversight mechanisms such as business plans and annual reports. The Ministry accepted these recommendations and is working with the Ontario Energy Board (OEB) to move them forward in the near-term through the business planning cycle.

Commented [CC(2]: Note: SCOPA could ask for a copy of the mandate review report.

The Mandate Review also, however, identified that given the emerging challenges in the energy sector, the Ministry may wish to consider deeper reforms. To that end, the Review's final recommendation was for the Ministry to consider engaging an expert review panel to determine whether more significant governance changes are appropriate.

The OEB Modernization Review Panel is the Ministry's response to this recommendation. Ontario is not alone in conducting this type of review. Regulators worldwide are undertaking initiatives to support grid modernization. Policy initiatives or regulatory reviews are underway in at least 30 American states.

IESO

Commented [HS(3]: IESO to prepare friendly questions. Need 20 mins of content per question

Likely need 2-3 questions

Q. IESO

Response

- XXX

OEB

Commented [HS(4]: OEB to prepare friendly questions. Need 20 mins of content per question

Q. Role of the Market Surveillance Panel

Response

- XXX

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Agenda _SCOPA Chapt 3_Feb 9.pdf

Agenda – SCOPA Chapter 3
February 9, 2018

1. Context / Key Dates
   - Response to Committee – February 21, 2018
   - Committee Appearance – March 7, 2018

2. Products
   - Swim Lanes Chart
   - Response to OAG's Recommendations Chart / MEMO to SCOPA Clerk
   - Friendly Q/As
   - 20 Minutes – Opening Statement
   - General Key Messages / Q&A Package

3. Next Steps
   - Products Production, Review and Approvals (February 2017)
   - Minister / MO Briefing (February 2017 – TBD)

Notes:

FW_ SCOPA Chapter 3 - QA (1).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA Chapter 3 - QA
Date:	March 5, 2018 6:17:42 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean.docx SCOPA Chapter 3 - March 5 - Tracked.docx

FYI – full package. Please share Steen's version of the Legislative Authorities QA with LSB.

HC

From: Cox, Hilary (ENERGY)
Sent: March 5, 2018 6:16 PM
To: Nucciarone, Michael (ENERGY)
Cc: Whytock, John (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: FW: SCOPA Chapter 3 - QA

Hi All –
Attached are updated SCOPA Chapter 3 Q&As (tracked and clean). This also includes minor input from OEB per the meeting (i.e., OEB is not on the market renewal working group).

Re: Q&A on OEB and IESO powers with respect to market rules, it is also being reviewed by LSB. We've included the draft language so folks get a better sense of how it is being framed.

HC

SCOPA Chapter 3 - March 5 - Clean.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
~~February 2018~~ March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~ of OEB, IESO, MSP and MACD

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants~~,~~ and impose~~s~~ sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of MSP and IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- and Reviewing tthe role and authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure potentialany abuse of the market rules is adequately addressed. in the market rule amendment process, particularly in instances of potential abuse of the market rules.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted isn our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

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Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

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- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

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The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in <u>additional</u> costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will

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schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

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Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

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The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The

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engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

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Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

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These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

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Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

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Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the

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size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

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Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - QA .pdf

From:	Cox, Hilary (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Whytock, John (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	FW: SCOPA Chapter 3 - QA
Date:	March 5, 2018 6:16:31 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean.docx SCOPA Chapter 3 - March 5 - Tracked.docx

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Hi All –
Attached are updated SCOPA Chapter 3 Q&As (tracked and clean). This also includes minor input from OEB per the meeting (i.e., OEB is not on the market renewal working group).

Re: Q&A on OEB and IESO powers with respect to market rules, it is also being reviewed by LSB. We've included the draft language so folks get a better sense of how it is being framed.

HC

SCOPA Chapter 3 - March 5 - Clean_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
~~February 2018~~ March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~ of OEB, IESO, MSP and MACD

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants~~,~~ and impose~~s~~ sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of MSP and IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- and Reviewing tthe role and authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure potentialany abuse of the market rules is adequately addressed. in the market rule amendment process, particularly in instances of potential abuse of the market rules.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted isn our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

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Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

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- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

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The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in <u>additional</u> costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will

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schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

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Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

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The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The

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engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

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Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

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These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

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Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

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Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the

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size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

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Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - additional Q&As (1).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Bergman, Mark (ENERGY); Ho, Larissa (ENERGY)
Subject:	FW: SCOPA Chapter 3 - additional Q&As
Date:	February 26, 2018 2:51:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 3 - SH Update.docx Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20_.pdf

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Ava – further QAs for SCOPA – these ones for Thursday end of day please.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 26, 2018 2:43 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

Chapter 3 of the Market Rules:

-

Finding a breach

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:

6.2.4.1 determine that the *market participant* has not breached the *market rules*;

6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market rules***;

6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or

6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:

6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:

6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be

necessary to comply with the *market rules*;
6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;
6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;
6.2.7.4 issue a non-compliance letter in accordance with section 6.6;
6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee
2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:
2.2B.1.1 the *facility* is not a *quick-start facility*;
2.2B.1.2 the *facility* is a *dispatchable generation facility*; and
2.2B.1.3 [Intentionally left blank – section deleted];
2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:
2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;
2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and
2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.
2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4, and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-payments made to the *market participant.***

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Auditor General 2017 Annual Report - SCOPA Ch_20.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.

- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak

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demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand
[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.
[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf
[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking

[5] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.

It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

MSP Recommendations

Q. Why didn't the Ministry respond to recommendations in the Market Surveillance Panel (MSP)?

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

Commented [HS(3]: See Jordan's email on Enforcement Authorities

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(4]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

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The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

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As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

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In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

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The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public. Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

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Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

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The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution that continues out-of-market payments at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

What we want to accomplish through Market Renewal is make sure that the market is more efficient so that these costs are as low as we can reasonably get them. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be

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reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. We've since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, over 6,000 MW of coal-fired generation was shut down and replaced with more than 14,000 MW of renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

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Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

The IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

The MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

Attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information.

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This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

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Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system

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operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

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Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

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The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

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In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2_1.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

FW_ SCOPA Chapter 3 - additional Q&As (2).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Chapter 3 - additional Q&As
Date:	February 28, 2018 1:18:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 3 - SH Update.docx Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20_.pdf

Hi Guys –
Steen would now like to see these QAs tomorrow instead of Friday.

HC

From: Cox, Hilary (ENERGY)
Sent: February 26, 2018 2:43 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible

under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

Chapter 3 of the Market Rules:

-

Finding a breach

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:

6.2.4.1 determine that the *market participant* has not breached the *market rules*;

6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market rules***;

6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or

6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:

6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:

6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be necessary to comply with the *market rules*;

6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;
6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;
6.2.7.4 issue a non-compliance letter in accordance with section 6.6;
6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee
2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:
2.2B.1.1 the *facility* is not a *quick-start facility*;
2.2B.1.2 the *facility* is a *dispatchable generation facility*; and
2.2B.1.3 [Intentionally left blank – section deleted];
2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:
2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;
2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and
2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.
2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4, and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-payments made to the *market participant.***

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Auditor General 2017 Annual Report - SCOPA Ch_21.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.

- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak

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demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand
[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.
[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf
[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking

[5] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.

It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

MSP Recommendations

Q. Why didn't the Ministry respond to recommendations in the Market Surveillance Panel (MSP)?

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

Commented [HS(3]: See Jordan's email on Enforcement Authorities

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(4]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

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The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

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As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

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In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

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The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public. Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

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Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

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The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution that continues out-of-market payments at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

What we want to accomplish through Market Renewal is make sure that the market is more efficient so that these costs are as low as we can reasonably get them. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be

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reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. We've since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, over 6,000 MW of coal-fired generation was shut down and replaced with more than 14,000 MW of renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

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Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

The IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

The MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

Attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information.

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This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

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Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system

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operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

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Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

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The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

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In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2_2.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

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the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

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AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

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staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

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	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

FW_ SCOPA Chapter 3 - additional Q&As (3).pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA Chapter 3 - additional Q&As
Date:	February 28, 2018 1:45:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 3 - SH Update.docx Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20_.pdf

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Ava – note new deadline below – please endeavour to get me your edits by tomorrow at noon, if you are back in the office. If you need to take another day, I can handle it myself tomorrow.

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 1:18 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Guys –
Steen would now like to see these QAs tomorrow instead of Friday.

HC

From: Cox, Hilary (ENERGY)
Sent: February 26, 2018 2:43 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

<u>Chapter 3 of the Market Rules:</u>

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<u>Finding a breach</u>

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:

6.2.4.1 determine that the *market participant* has not breached the *market rules*;

6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market***

rules;
6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or
6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:
6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:
6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be necessary to comply with the *market rules*;
6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;
6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;
6.2.7.4 issue a non-compliance letter in accordance with section 6.6;
6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee
2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:
2.2B.1.1 the *facility* is not a *quick-start facility*;
2.2B.1.2 the *facility* is a *dispatchable generation facility*; and
2.2B.1.3 [Intentionally left blank – section deleted];
2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:
2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;
2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and
2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.
2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4, and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-**

payments made to the *market participant.*

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Auditor General 2017 Annual Report - SCOPA Ch_22.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.

- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak

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demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand
[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.
[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf
[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking

[5] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.

It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

MSP Recommendations

Q. Why didn't the Ministry respond to recommendations in the Market Surveillance Panel (MSP)?

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

Commented [HS(3]: See Jordan's email on Enforcement Authorities

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(4]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

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The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

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As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

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In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

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The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public. Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

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Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

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The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution that continues out-of-market payments at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

What we want to accomplish through Market Renewal is make sure that the market is more efficient so that these costs are as low as we can reasonably get them. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be

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reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. We've since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, over 6,000 MW of coal-fired generation was shut down and replaced with more than 14,000 MW of renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

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Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

The IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

The MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

Attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information.

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This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

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Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system

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operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

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Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

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The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

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In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Summary Status Table in Response to the Report of the Auditor General of Ontario

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

FW_ SCOPA Chapter 3 - additional Q&As (4).pdf

From:	Lightbody, Ava (ENERGY)
To:	Christie, Tim (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Chapter 3 - additional Q&As
Date:	March 1, 2018 2:53:43 PM
Attachments:	SCOPA Chapter 3 - additional Q&As - EPE.DOCX

Hi Tim,

Our edits to the QAs: \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\Auditor General\SCOPA ch 2 and 3\ch3\20180301 SCOPA ch 3 additional QAs\SCOPA Chapter 3 - additional Q&As - EPE.docx

Thanks,
Ava

From: Lightbody, Ava (ENERGY)
Sent: March-01-18 1:11 PM
To: Cayley, Daniel (ENERGY)
Subject: RE: SCOPA Chapter 3 - additional Q&As

Hi Daniel,

Proposed new responses and some additional tweaks. Sorry for the delay. \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\Auditor General\SCOPA ch 2 and 3\ch3\20180301 SCOPA ch 3 additional QAs\Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE-v2.docx

Ava

From: Cayley, Daniel (ENERGY)
Sent: February-28-18 1:46 PM
To: Lightbody, Ava (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Ava – note new deadline below – please endeavour to get me your edits by tomorrow at noon, if you are back in the office. If you need to take another day, I can handle it myself tomorrow.

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 1:18 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Guys –

Steen would now like to see these QAs tomorrow instead of Friday.

HC

From: Cox, Hilary (ENERGY)
Sent: February 26, 2018 2:43 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal

and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

Chapter 3 of the Market Rules:

-

Finding a breach

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:
6.2.4.1 determine that the *market participant* has not breached the *market rules*;
6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market rules***;
6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or
6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:

6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:
6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be necessary to comply with the *market rules*;
6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;
6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;
6.2.7.4 issue a non-compliance letter in accordance with section 6.6;
6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which

payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee
2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:
2.2B.1.1 the *facility* is not a *quick-start facility*;
2.2B.1.2 the *facility* is a *dispatchable generation facility*; and
2.2B.1.3 [Intentionally left blank – section deleted];
2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:
2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;
2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and
2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.
2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4, and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-payments made to the *market participant.***

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SCOPA Chapter 3 - additional Q&As - EPE.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of which play vital roles in ensuring our system operator to run an an efficient and, fair, and reliable electricity market for ratepayers across the province.

- According to IESO, Bboth programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP ll)

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and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- ~~Once launched,~~ Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) program with a more efficient and transparent mechanism~~payments~~ and eliminate Congestion Management Settlement Credits (CMSC). ~~Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.~~

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

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- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

[5] ~~http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs~~

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Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

.~~For example, a large industrial facility with a flat load profile does not require investments in electricity peaking resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.~~

Lastly, ICI allows participants to reduce electricity costs by one third on average, ~~It also~~ help~~s~~ing to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce and Canadian Manufacturers and Exporters to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

ICI is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. In addition, simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

In 2017, the total cost shift to Class B was about $1.2 billion.

MSP Recommendations

Q. Why didn't the Ministry respond to the recommendations ~~in~~ of the Market Surveillance Panel (MSP)?

The Ministry of Energy is committed to strong electricity market oversight in Ontario. The Ministry is briefed on all MSP reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

IESO has made numerous revisions to the market rules in response to MSP advice, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigatory process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the IESO or the MACD.

Market oversight in Ontario is undertaken by three independent bodies; the OEB, the OEB's MSP, and IESO's MACD. Each plays a vital role in ensuring an efficient, fair, and reliable electricity market for ratepayers across the province.

The OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy does has

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

Commented [LA(3]: from IESO status table response

Commented [HS(4]: See Jordan's email on Enforcement Authorities

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the general authority to direct the OEB to review the market rules or market participant licenses in order to address possible abuse of market power.

The OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning. MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e. financial penalties) for failure to comply with the market rules. MACD staff also support the MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP, and MACD to ensure a fair, efficient, and reliable electricity market and remain committed to working collaboratively to ensure effective market oversight mechanisms.

Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(5]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

We welcome and appreciate the recommendations of the Auditor General and agree with the need for strong electricity market oversight in Ontario.

To that end, we are working closely with the IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and MACD and the role and authority of the OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

The potential need for additional legislative authority for MACD in order to ensure effective and efficient investigations is being taken in to consideration.

This year, Ontario is undertaking a review of the OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of the OEB progresses, and the Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

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- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. ~~In other words, they're baked into the way our system operates to make sure we keep the lights on.~~

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;

- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and

- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, ~~T~~the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

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As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, ~~B~~both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As ~~we started the~~part of the phase out of coal~~ in 2009~~, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

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As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

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Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the ~~need for~~ Real-Time Generation Cost Guarantee (RT-GCG) ~~payments~~ program and eliminate Congestion Management Settlement Credits (CMSC). ~~Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.~~

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

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Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

~~We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.~~

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, ~~T~~this program makes sure ~~our system operator can ensure on a daily basis~~ that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

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These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by

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covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final

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decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO

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also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

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Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

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Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a

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CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution that continues out-of-market payments at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

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- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

~~What we want to accomplish through~~As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low ~~as we can reasonably get them~~. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. ~~We've~~ IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more

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fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators

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and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been ~~recently~~ added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, ~~T~~the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

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Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

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Q. What is the Market Assessment and Compliance Division (MACD)?

The IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

The MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

The IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, ~~A~~attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

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Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

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But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American

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Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

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The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

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The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

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Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Chapter 3 - additional Q&As .pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Chapter 3 - additional Q&As
Date:	February 26, 2018 2:42:58 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 3 - SH Update.docx Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20_.pdf

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Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

Chapter 3 of the Market Rules:

Finding a breach

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:

6.2.4.1 determine that the *market participant* has not breached the *market rules*;

6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market rules***;

6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or

6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:

6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:

6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be necessary to comply with the *market rules*;

6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;

6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;

6.2.7.4 issue a non-compliance letter in accordance with section 6.6;

6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee
2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:
2.2B.1.1 the *facility* is not a *quick-start facility*;
2.2B.1.2 the *facility* is a *dispatchable generation facility*; and
2.2B.1.3 [Intentionally left blank – section deleted];
2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:
2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;
2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and
2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.
2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4, and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-payments made to the *market participant.***

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STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and our system operator to run an efficient and fair electricity market for ratepayers across the province.

- Both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to eliminate the need to build more electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak

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demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.
Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand
[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.
[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf
[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.
Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. For example, a large industrial facility with a flat load profile does not require investments in electricity peaking

[5] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.

It also helps to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

MSP Recommendations

Q. Why didn't the Ministry respond to recommendations in the Market Surveillance Panel (MSP)?

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

Commented [HS(3]: See Jordan's email on Enforcement Authorities

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(4]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. In other words, they're baked into the way our system operates to make sure we keep the lights on.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

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The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

The Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

Both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As we started the phase out of coal in 2009, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

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As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

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In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the need for Real-Time Generation Cost Guarantee (RT-GCG) payments and Congestion Management Settlement Credits (CMSC). Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

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The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public. Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

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Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

This program makes sure our system operator can ensure on a daily basis that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.

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The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution that continues out-of-market payments at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

What we want to accomplish through Market Renewal is make sure that the market is more efficient so that these costs are as low as we can reasonably get them. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be

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reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. We've since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, over 6,000 MW of coal-fired generation was shut down and replaced with more than 14,000 MW of renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

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Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

The IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

The MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

Attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information.

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This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

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Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system

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operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

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Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

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The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

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In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Summary Status Table in Response to the Report of the Auditor General of Ontario

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

FW_ SCOPA Chapter 3 .pdf

From: Lightbody, Ava (ENERGY)
To: Rehob, James (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3
Date: March 5, 2018 5:46:34 PM
Attachments: SCOPA Chapter 3 - FINAL -20180305-EPE - version 2 with additional Q.DOCX

Hi James,

Hope you are well. We were asked to add the following question to the set of QAs for Public Accounts on chapter 3 of the AG report (it's also in the attached full set, for reference). This is our draft response, which we would appreciate if you could review – this was requested for tomorrow AM, so as soon as possible in the morning would be great. Feel free to get in touch with any questions or concerns as always.

Q. What are the powers of the OEB and IESO in the market rule review and amendment process under the Electricity Act, 1998 (EA)?

Under the EA, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

Under the EA, the OEB has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to IESO for further consideration. The OEB may also review and order an amendment to the market rules where the MSP reports on instances market power abuse.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 4:24 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3

Further clarification.

From: Schlaepfer, Martin (ENERGY)
Sent: March 5, 2018 4:22 PM
To: Cox, Hilary (ENERGY); Nucciarone, Michael (ENERGY); Whytock, John (ENERGY)
Subject: RE: SCOPA Chapter 3

Sorry just to clarify the question comes from the fact that throughout the Summary Status Table we refer to the existing authorities under the Electricity Act. The Deputy wants the QA in the event he is asked what the existing authorities are.

Can we aim to have this sent up tomorrow am?

From: Schlaepfer, Martin (ENERGY)
Sent: March 5, 2018 4:06 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>
Subject: RE: SCOPA Chapter 3

Hi,

The Deputy just came by and asked for another QA. He would like to know what the legislative powers in the Electricity Act currently say about how market rules are approved.

Can you add that to the list?

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: March 5, 2018 3:33 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>
Cc: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: SCOPA Chapter 3

Thanks. I'm waiting for OEB edits and have staff starting to work on the OPG QA. I believe John is reviewing IESO's friendlies and I'm just waiting for Steen's approval on a slightly revised ICI friendly for us.

That should do it, right?

HC

From: Nucciarone, Michael (ENERGY)
Sent: March 5, 2018 3:31 PM
To: Cox, Hilary (ENERGY); Whytock, John (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: SCOPA Chapter 3

Hi there,

Following this afternoon’s meeting, the Deputy has asked that any edits or additional materials for SCOPA be made for end of day to allow for him to review this evening.

Thanks,
Mike

SCOPA Chapter 3 - FINAL -20180305-EPE - versi.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

~~Additional Legislative Power~~Roles and legislative powers ~~for~~of OEB, MSP and MACD:

Commented [LA(1]: Edited for more precision – MSP is not necessarily being considered for additional legislative authority, nor was this the AG's recommendation

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of MSP and IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants, and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

~~Additional Legislative Power~~ Roles and legislative powers ~~for~~ of OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide ~~MSP~~ OEB or MACD with additional powers?

Commented [LA(2]: The AG's recommendation pertains to the board's legislative powers (not msp's) in relation to amending market rules.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, , including:

- Reviewing the investigatory powers of MSP and IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence,

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- ~~and~~ Reviewing ~~t~~the ~~role and~~ authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure potential abuse of the market rules is adequately addressed. ~~in the market rule amendment process, particularly in instances of potential abuse of the market rules.~~

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB~~, MSP~~ and MACD is under review as highlighted i~~s~~n our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. What are the powers of the OEB and IESO in the market rule review and amendment process under the *Electricity Act, 1998* (EA)?

Under the EA, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.[8]

To make rule amendments, the IESO uses a consultative process. A Technical Panel, comprising stakeholder representatives, supports the IESO Board in the development and consideration of amendments to the market rules.

Under the EA, the OEB has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to IESO for further consideration. The OEB may also review and order an amendment to the market rules where the MSP reports on instances market power abuse.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Commented [LA(3]: Verbatim from IESO website – this process is laid out in the market rules and manuals

Commented [LA(4]: It gets complicated beyond this level detail – have avoided getting in the weeds but am happy to do so as necessary.

Commented [LA(5]: The legislation is specific regarding market power abuse

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[8] The market rules govern the IESO-controlled grid and IESO-administered markets.

NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why is Ontario Power Generation, a government-controlled entity, under investigation for gaming the electricity market? What is the status of the investigation?

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Placeholder for input from IESO.

Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

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The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

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In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

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As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public. Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

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According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

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As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

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The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until

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fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation

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was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

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The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead

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commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works.

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MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning

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standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These

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are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

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The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

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The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in

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October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

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Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform

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IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

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In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric

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system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential

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information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

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In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA Friendlies .pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA Friendlies
Date:	January 24, 2018 10:40:25 AM
Attachments:	Consolidated Estimates Friendlies.docx SCOPA_QA_Friendly_ENERGY.DOCX

Hey Guys –

Attached are the Estimates friendlies – which should be the starting point for the Public Accounts friendly that I just actioned out.

HC

Consolidated Estimates Friendlies_2.pdf

Consolidated Estimates Friendlies

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TOPIC 1: FAO $4B number

Speaking: Deputy Minister, Minister, Ken Hartwick (OPG)

1) Q. Minister, when we were last here, the Deputy Minister was trying to provide some insight into the $4 billion dollar interest cost estimate from the Financial Accountability Officer's report on Ontario's Fair Hydro Plan.

I was hoping the Deputy Minister could provide the answer that he was attempting to provide last Wednesday and also explain why Ontario Power Generation (OPG) is best qualified to manage the debt obligations?

First, I would like to point out that the $4 billion figure was an estimate made by the Financial Accountability Office (FAO) based on initial Ministry of Energy forecasts of total debt and interest levels for Ontario's Fair Hydro Plan from March 2017.

Subsequent analysis conducted by the Ministry of Energy found that the debt and interest levels are now expected to be substantially lower.

Initial estimates of peak debt decreased between March 1, 2017 and August 31, 2017 from approximately $28 billion to $20 billion and the estimates of total interest cost decreased from approximately $25 billion to $18 billion.

These updated estimates reflect refinements of a number of variables, including the cost of borrowing and electricity system cost forecasts.

I would also note that a number of variables, including interest rates, electricity demand and electricity costs, will vary over the 30-year life of the program and cost estimates will continue to be revised to reflect these changing conditions.

The FAO report itself concludes by saying "the FAO's estimates are subject to many assumptions and uncertainties ... Fiscal impact may differ significantly from the FAO's estimates."

While the total cost of the program has already been revised downwards substantially to reflect revised inputs, I would like to take a moment to discuss the methodology behind the FAO's analysis. The FAO simply took an estimated cost of borrowing for the Ontario Financing Authority (OFA) and Ontario Power Generation (OPG) and applied to the difference to debt estimates based on Ministry of Energy data from March.

This analysis ignores the policy intent of Ontario's Fair Hydro Plan, which to ensure that the same group of ratepayers receive the benefit and pay the costs associated with the plan.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (known as the Fair Hydro Plan Trust) that will manage the debt obligations.

OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

I would now like to invite Ken Hartwick from OPG to elaborate on the structure and speak to OPG's qualifications and its plan to keep costs down.

[Deputy passes of to Ken Hartwick to elaborate on the structure and speak to OPG's qualifications and plan to keep costs down]

Let me make a few remarks about OPG's qualifications as the financing manager of the Fair Hydro Plan:

OPG currently manages an $18 billion nuclear fund and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing the Fair Hydro initiative. For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

2) Q. What is OPG's Role?

OPG will be acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, basically arranging for a variety of debt financing for the deferred costs.

We will be setting up a financing entity in the form of a "Trust", which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills and will be funded through the Trust.

OPG will arrange for third party debt, supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be lent to the Trust, also at equivalent market rates.

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB), the Independent Electricity System Operate (IESO) and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

3) Q. What is the difference between the Province Borrowing Program and Fair Hydro Trust (FHT) borrowing program?

A simple comparison between direct borrowing by the Province and OPG's role in Ontario's Fair Hydro Plan is a bit of an "apples to oranges" comparison.

A conventional Provincial borrowing program would raise funds based on the credit worthiness of the Province and the Provincial Guarantee.

Under Ontario's Fair Hydro Plan, lenders will provide funds based on the underlying value of the specific asset. This value is created by the legislated framework rather than through a Provincial Guarantee.

Ontario's Fair Hydro Plan will create a series of deferred assets that will have certain cashflow payment streams going forward. The overall objective of Ontario Fair Hydro Plan is to spread the costs and benefits out. The financing has to be actually linked to the overall payment scheme going forward and aligned with the benefits.

Consequently, the financing actually lends itself toward a "securitization" structure with cash flows matched to specific benefits rather than as a conventional borrowing program.

4) Q. Why is OPG best placed to minimize the cost of the overall program?

The Ontario Power Generation (OPG) has the expertise and experience to manage this securitization program. The Ontario Financing Authority (OFA), does not, as far as I am aware, have direct experience in setting up or managing a securitization vehicle or program.

This combination and diversity of skills position OPG to ensure an effective funding arrangement is put in place that clearly defines the electricity ratepayer in context of the person receiving the initial benefit of the legislation.

As we work through the financing program for Ontario's Fair Hydro Plan, OPG is focused on ensuring that financing is optimized to minimize costs to ratepayers.

In particular, attention has been given to achieving a strong credit rating for the Trust, again, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Finally, OPG's Treasury function is well positioned given its experience in developing structured financing programs and in managing multiple existing debt platforms.

TOPIC 2: OPG and Fair Hydro Plan accounting

Speaking: Ken Hartwick (OPG)

1. OPG and Fair Hydro Plan

Question:

You have a lot of experience working in the electricity sector in other jurisdictions in North America. Could you tell us about whether you've seen this kind of arrangement elsewhere before – in which costs are deferred over a longer period of time than originally planned?

- **Programs similar in concept have been set up in the electricity sector, especially in the US. Several of these programs defer charges of one billion dollars or more.**
- **The most recent transactions that are similarly several billion in size occurred at Duke Energy and Long Island Power**
- **Florida and other states (approximately 18 in total) have passed similar securitization legislation to authorize recoveries by utilities of specified costs, such as hurricane recovery costs, environmental control costs, or costs associated with deregulation of the electricity market**
- **All of these take costs that have been incurred and spread their recovery over several years and decades through financing arrangements similar to the FHP.**

2. OPG and Fair Hydro Plan

Question:

Could you please tell us about what OPG's role is in the administration and ongoing operation of the Fair Hydro Plan?

- **OPG will be acting as the financing manager for the Fair Hydro legislation, basically arranging for a variety of debt financing.**
- **We will be setting up a financing entity (Trust), which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.**
- **The financing requirements are determined by the legislation and the reduction consumers have on their bills and will be funded through the Trust.**
- **OPG will arrange for the third party debt, and supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be leant to the Trust, also at equivalent market rates.**

3. OPG and Fair Hydro Plan

Question:

But is it unusual for an organization like yours to take on this responsibility?

Could you please explain why OPG might be the appropriate entity to play this kind of role—do you think you are adding value to the process by acting as the Financial Services Manager?

- **OPG is uniquely positioned as we understand the supply / demand characteristics of the market, we regularly interact with the OEB, IESO and we have experience in Treasury operations in the marketplace including relationships with the credit rating agencies.**
- **OPG has recently successfully project financed hydroelectric investments from public markets and has an ongoing settlement relationship with the IESO.**

- **A simple comparison between direct borrowing by the Province and OPG's role in the Fair Hydro Plan is a bit of an apples to oranges comparison.**
- **A conventional Provincial borrowing program would raise funds based on the credit worthiness of the Province and the Provincial Guarantee.**
- **Under the Fair Hydro Plan, lenders will provide funds based on the underlying value of the specific asset. This value is created by the legislated framework rather than through a Provincial Guarantee.**
- **The Fair Hydro Plan will create a series of deferred assets that will have certain cash-flow payment streams going forward. The overall objective of the Plan is to spread the costs out. The financing has to be actually linked to the overall payment scheme going forward, and aligned with the benefits. Consequently, the financing actually lends itself toward a securitization structure with cash flows matched to specific benefits rather than as a conventional borrowing program**
- **OPG has the expertise and experience to manage a securitization program. The Ontario Financing Authority, does not, as far as I am aware, have direct experience in setting up or managing a securitization vehicle or program.**
- **This combination and diversity of skills position OPG to ensure an effective funding arrangement is put in place that clearly defines the electricity rate payer in context of the person receiving the initial benefit of the legislation.**

4. OPG Accounting and Transparency

Question:

Do you think the structure that's been created to administer and operate the Fair Hydro Plan—and that OPG plays a role in—is a structure that will provide for transparency as it related to the borrowing and the accounting?

- **The structure that has been set up in fact ensures a high level of transparency.**
- **As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents**

- **Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.**
- **All of this will be reported in OPG's financial reports on a quarterly and annual basis. OPG's financial reports are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight.**

5. OPG Accounting and External Experts

Question:

Could you explain what sort of external expertise you enlisted, and please explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

- **There are three specific areas that we supplemented our team with external resources.**
  - **First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.**
  - **The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.**
  - **The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.**

  As has been mentioned OPG has strong capabilities across these areas but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

6. OPG and the Fair Hydro Trust

Question:

Can you describe what OPG has been asked to do to minimize the customer impact of implementing the FHP?

- **OPG will act as the Financial Services Manager for the FHP Trust.**
- **There are 2 primary goals of the Financial Services Manager:**
  - **First of these, is to ensure that the activities envisioned under the FHP legislation, as they pertain to the Trust, are consistent with the electricity ratepayer both receiving the bill reduction and the corresponding collection of the costs related to the activities that have been invested in.**
  - **The second is to work on optimizing the FHP Trust financing to ensure that costs to ratepayers are minimized and reflect the benefit the ratepayer initially received.**
- **Speaking to the second point we have been working on a financing program that includes several elements including a securitization program, provincial equity support and OPG funding. These elements are being optimized in a manner that will achieve an effective financing program for the benefit of consumers.**
- **As we have worked through the program attention has been given to achieve a strong credit rating for the Trust again with the objective of mitigating the impact on the ratepayer through effective market pricing by the Trust of the funds being borrowed.**
- **It is also critical to my first point that the financing program have a high level of transparency so ratepayers can understand the nature of the program and the associated costs. The Trust will file all necessary financial reports that will ensure this transparency.**

TOPIC 3: IESO and Accounting

Speaking: Kim Marshal (IESO)

Q1. In the first session we asked if you could you talk about how the IESO's accounting policy compares to its peers. You said you were looking for trends, and you did some work in terms of how others are defining their rate-regulated assets. Can you elaborate further on this? Did you discuss this method with the other companies who are using it to determine what the overall advantages are?

- Of course. Thanks for the opportunity to revisit this question.

- When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.
- Including the IESO, **there are 9 independent system operators in North America**; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.
- We had discussions with these organizations about their operations and accounting practices.
- We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.
- From this research, we found that **7 of the other 8 ISOs recognize the balances of the market participants.** They are:
    1. **ISO New England**
    2. **NYISO**, in New York
    3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi, and Louisiana.
    4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.
    5. **CAISO**, in California
    6. **ERCOT**, in Texas
    7. **Southwest Power Pool**, in central US.
- When we talked to our counterparts across North America about regulatory assets, we found out that **6 of the other 8 entities recognize the economic effects of rate regulation**, they are:
    1. **AESO**, in Alberta
    2. ISO New England
    3. NYISO
    4. MISO
    5. PJM
    6. ERCOT
- I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

- When we talked to CAISO, we found out that **their accounting framework actually allows for the recognition of regulatory assets and liabilities**, but that it had concluded the need to recognize regulatory assets was no longer necessary.
- When we talked to Southwest Power Pool, we learned that **they simply do not have any variance accounts that would qualify as regulatory assets or liabilities**.

- So, when we looked at making the accounting change we considered that:
    1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
    2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
    3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
    4. That this change would **bring the IESO in line with its peers** across North America; and
    5. Finally, that this accounting change would in **no way affect the IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Q2. In the first session you stated that "Public Sector Accounting Standards (PSAS) are silent in terms of rate-regulated accounting," which is ultimately what led the IESO in conjunction with KPMG, to look beyond PSAS to US Generally Accepted Accounting Principles (GAAP) in terms rate regulated activities. How did the IESO come to the conclusion that it was acceptable to use GAAP instead of PSAS for rate regulated activities? Is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

- The IESO follows Public Sector Accounting Standards (PSAS) for its accounting.
- PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities.
- In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard.

- If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

- In this case, the IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing the IESO to recognize a regulatory asset.

- This decision was supported by an accounting opinion from our external auditors at KPMG and as we've just discussed, aligns the IESO with six of the eight other independent system operators in North America.

- In fact, more than one of the big-four accounting firms agree with our decision on this matter.

Q3. Obviously determining a structure like this requires a lot of comprehensive insight and analysis to ensure that the best interests of Ontario ratepayers are being protected. Who was involved in the decision making process? What experts and outside companies were involved, and is the IESO certain that they left no stone unturned in ensuring the proper accounting process and standards were chosen?

- Definitely. It's a decision we made after careful consideration and extensive consultation with external experts.

- The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

- Prompted by conversation with government about the Fair Hydro Plan and recognizing the need to consider impacts of future government policy, the IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its audit partner KPMG, the IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in the IESO financial statements.
- By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- Ultimately, the IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.
- We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.
- As we just covered, this change to recognize regulated assets and market accounts brings the IESO in line with accounting practices followed by other independent system operators in North America.
- I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of the IESO, reported a subset of the market accounts on its financial statements – so this isn't new.
- To confirm our view that the change was appropriate, the IESO engaged independent audit firm KPMG for accounting research on the matter.
- KPMG conducted their own research into the issue.
- KPMG subsequently issued a white paper on the accounting change, supporting the IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.
- The accounting change was reviewed by the IESO's Board of Directors, and approved.
- As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.
- Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, the IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

- Now, you asked a question about ensuring the best interests of Ontario rate payers were protected and this is an important point that I want to take the time to address, specifically, because it was a consideration of ours.

- **These changes in no way affect the IESO's costs, or have any financial impact on electricity ratepayers.**
- Ultimately, the IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion **last year**, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

Q4. You say the IESO received an "unqualified opinion" from its auditor on your 2016 financial statements. What does that mean?

- It is the auditor's responsibility to express an opinion on the financial statements based on their audit.
- In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.
- Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.
- Here are some of the things an audit looks into:
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- **On our 2016 financial statements, KPMG stated: ”We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion”**
- This was followed by a statement of their **unqualified opinion:**
    - **In our opinion, the financial statements present fairly, in all material respects, the financial position of the IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.**
- This is taken directly from our 2016 financial statements, which are publically available.
- So the “unqualified opinion” is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent the IESO’s financial position at year-end.

Q5. So you received a clean audit on the 2016 financial statements which included regulatory accounting. Why didn’t the IESO include these transactions on financial statements prior to 2016?

- The IESO regularly reviews its accounting policies.
- Prompted by a discussion with government about the Fair Hydro Plan, the IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its auditor, the IESO determined that a choice was required as to whether or not to record Market Accounts and regulatory assets and liabilities in the IESO financial statements.
- By analyzing the nature of the accounts, IESO’s economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- In order to confirm our decision, we asked KPMG to conduct some research on our behalf into the appropriateness of adopting regulated accounting.
- Their research agreed with our view that the recognition of regulatory assets and liabilities better reflects the economic substance of IESO’s operations and enhances the relevance, transparency and accountability of its financial reporting.
- It also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

- Finally, KPMG found that the accounting change would bring the IESO in line with the majority of its ISO peers across North America.

- When we considered the results of KPMG's research, along with the fact that the change would have no impact on **the IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.**

TOPIC 4: Ministry and OFHP Support Programs

Speaking: ADMs (TBD),

Funding of Support Programs

Preamble: As part of the changes announced in the Fair Hydro Plan, your Ministry announced some changes to several support programs. You also communicated that these programs would be funded differently.

Q1: Could you please explain how the change of funding social programs works, and how it will affect people's bills?

Response

In the past, the costs of two social programs – Rural or Remote Rate Protection and the Ontario Electricity Support Program – were funded by ratepayers. The average electricity customer in Ontario contributed approximately $2.50/month to fund these important programs.

However, in recognition of the broader social benefits of these programs, as part of Ontario's Fair Hydro Plan we have transitioned the vast majority of these costs to taxpayers – leading to real, month over month savings in the Regulatory charge of consumer's electricity bills

These programs have been subsequently expanded, to provide greater benefits to more customers, at no additional cost to the ratepayer. The new First Nations Delivery Credit is also funded through taxpayers and will not be charged to consumers.

The social programs are targeted to some of the more vulnerable consumers in Ontario – including those with low-income and in high-cost rural areas - to ensure that our electricity system recovers costs in a fair and equitable manner.

Rural or Remote Ratepayer Protection (RRRP)

Preamble: You also announced additional relief for those consumers who live in the rural and remote parts of our province. These consumers often struggle with higher delivery charges than those who live closer to our sources of generation, or live in areas in which it's harder to maintain the poles and wires.

Q2: I know that the Rural or Remote Rate Protection (RPPP) program previously helped these customers, but could you explain what actions were taken in the Fair Hydro Plan to broaden this relief?

Response

I know that the Rural or Remote Rate Protection (RPPP) program previously helped these customers, but could you explain what actions were taken in the Fair Hydro Plan to broaden this relief?

As part of the Fair Hydro Plan, the Government has introduced distribution rate protection that provides distribution rate relief for those residential customers that are served by LDCs with some of the highest distribution rates. Those LDCs are:

- Hydro One (R1 medium density & R2 low density)
- Algoma Power
- Atikokan Hydro
- Chapleau Public Utilities
- InnPower
- Lakeland Power (Parry Sound area only)
- Northern Ontario Wires
- Sioux Lookout Hydro

Eligible customers of those LDCs will not pay more for base distribution rates than $36.43 – the maximum amount set by the OEB for 2017.

The distribution rate relief provided through RRRP and Distribution Rate Protection (DRP) will offset potential rate increases, if any, approved by the OEB, or augment any rate decreases, if any, implemented by the OEB for these eligible customers.

Support Programs for Low-Income Ontarians

Preamble: Additionally, the Minister sometimes mentions that relief for those who are low-income or live in the rural parts of our province may be as high as 40-50%.

Q3: Could you please expand on the low-income support? What programs for low-income consumers were introduced or amended in the Fair Hydro Plan, and how will this change affect the constituents in my riding?

Response

The Ontario Electricity Support Program, or the OESP, provides monthly on-bill credits for eligible low-income customers all across Ontario. The Fair Hydro Plan included enhancements to the OESP that benefit ratepayers in two important ways:

- First, the OESP program costs will no longer be funded by the rate base. It will now be a government-funded program, providing savings for ratepayers.
- Second, the program was enhanced to provide more benefits to a greater number of Ontarians.

Starting May 1, 2017, the OEB increased OESP support for low-income consumers by 50 per cent. New eligibility categories were also introduced, enabling certain household sizes in higher income brackets to become eligible for the OESP. Monthly credits now range from $35 to $75. This means that:

- a single customer earning under $28,000 can now receive $45 per month, up from $30;
- a family of four with a combined earning under $48,000, which was previously not eligible for the program, can now receive $40 per month; and
- seven or more people living together who earn a total of $39,000 or less can receive $75 per month, up from $50.

If an applicant uses electricity as a primary source of heating, uses certain energy-intensive medical devices, or identifies as an Indigenous person, they would be eligible for the enhanced credit. That credit ranges from $52 to $113 per month.

Ontario is also working to improve co-ordination across provincial programs that provide support to low-income Ontarians. This includes ensuring that anyone deemed financially eligible for Ontario Works or the Ontario Disability Support Program will automatically be eligible for the OESP.

Support for Businesses

Preamble: When the Fair Hydro Plan was introduced, the Ministry also announced that up to as many as 500,000 small businesses and farms would benefit from the 25 per cent on average reduction. You also expanded the Industrial Conservation Initiative (ICI) for larger industrial businesses.

Q4: Could you please explain what the Industrial Conservation Initiative program does, have it was expanded, and what other initiatives exist that businesses can benefit from?

Response

The government of Ontario has a number of programs in place to help businesses and industry manage their electricity costs.

In particular, the Industrial Conservation Initiative (ICI) is an important program that provides participants with the opportunity to lower their electricity costs by reducing electricity consumption during peak hours of the day.

The Industrial Conservation Initiative (ICI) works by allowing participants to pay Global Adjustment (GA) based on their contribution to the top five system peak demand hours of the year. This provides an incentive for ICI participants to reduce consumption during peak hours, benefitting them financially and benefitting the electricity system by reducing peak demand and deferring the need to build new generation.

In 2016, ICI reduced peak demand by about 1,300 Mega Watts.

As part of Ontario's Fair Hydro Plan announced in March 2017, the government has expanded ICI to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW.

This change announced in Ontario's Fair Hydro Plan builds on a previous expansion that took effect in January 1, 2017. To give more businesses the opportunity to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed.

- Prior to lowering the ICI eligibility threshold and removing sector restrictions, only electricity consumers with peak demand between 3 and 5 MW could participate in ICI.

With the expansion of ICI to 1 MW and the removal of sector restrictions, an estimated 1,300 consumers became eligible for the program. As a result of the change to ICI announced in Ontario's Fair Hydro Plan, the number of eligible consumers for the program is expected to increase further.

The government is also assisting consumers who are considering participation in Industrial Conservation Initiative (ICI) through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

In addition to the Industrial Conservation Initiative (ICI), Ontario's Fair Hydro Plan includes other measures to benefit businesses and mid- to large-sized consumers.

- All consumers are benefitting from the shifting of cost recovery for the Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) from electricity bills to provincial revenues.

- Small businesses and farms that are eligible for the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) are also eligible to receive the benefits from refinancing of a portion of the Global Adjustment (GA), which has resulted in significant and immediate rate relief.

In addition to the measures note, Ontario also has a number of programs already in place to help industries, businesses, commercial operations and institutions lower their electricity costs and remain competitive.

These programs include:

- The Industrial Accelerator Program (IAP) – which assists eligible transmission-connected companies and their distribution-connected sites to fast-track the capital investment needed for major energy conservation projects;

- The Save on Energy for Business programs – which provide financial incentives that help distribution-connected businesses to reduce their electricity use and manage costs though energy audits, retrofits and process and system improvements; and

- The Northern Industrial Electricity Rate (NIER) Program – which provides rate rebates to Northern energy-intensive industries facing competitiveness pressures due to higher energy costs. The program also assists industrial consumers in developing and implementing energy management plans to manage their usage and reduce costs.

Finally, to further help ease the pressure on larger electricity consumers, the government is removing the Debt Retirement Charge (DRC) for all non-residential consumers on April 1, 2018 – nine months earlier than previously estimated.

Going forward the government will continue to engage with businesses and industry to explore innovative ways to reduce costs for these consumers

Effect on Ratepayer's Bills

Preamble: I think it's great that we're helping out the most vulnerable groups, such as low-income, rural, and First Nations customers, but I'm worried that this will end up costing more on my hydro bill.

Q5: Will the increases of these programs affect the electricity bills of customers who don't receive support from these programs?

Response

No – the full expansion of the social programs, as well as the vast majority of existing program costs, have been transitioned to the taxbase, leading to real, month-over-month savings in the Regulatory line of consumer invoices.

TOPIC 5: Additional Ministry of Energy questions

Speaking: ADM (TBD), Deputy Minister, Minister

Electricity costs

Preamble: The people of Ontario are currently able to benefit from a clean and reliable supply of electricity. But many of us remember that before 2003, we struggled with blackouts and brownouts, and an electricity system that was unreliable and in need of repairs.

As you've mentioned before, our government had to make significant investments to modernize and upgrade Ontario's electricity system. These were essential investments, including more than $50 billion in electricity generation and grid infrastructure across the province. We've also been able to close Ontario's coal plants, and in doing so, were the first jurisdiction in North America to go coal-free.

But this came at a cost—one that the current generation was bearing all by themselves.

Q6: Could you please explain what measures were taken by your Ministry to reduce this burden and lower electricity costs for consumers and businesses?

Minister Response

Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system.

The government has heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we are moving forward with a plan that would ensure costs are shared more evenly over the years ahead.

Ontario's Fair Hydro Plan provides new measures to lower electricity bills by 25 per cent on average for residential consumers and hold increases to the rate of inflation for the next four years, as well as initiatives to reduce costs for businesses. The plan includes the 8 per cent rebate introduced in January 2017 and builds on previously announced initiatives to deliver broad-based rate relief on all electricity bills. This rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the Global Adjustment (GA) is being refinanced. Refinancing the GA will provide significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

Under GA refinancing, initial analysis indicates that borrowing would occur for about 10 years. Initial analysis indicates that it is currently anticipated that loans will begin to be paid back in the mid-to-late 2020s. The exact timing will be determined by the markets and other factors as we strive to balance costs and benefits in the fairest way possible. This is a significant change that represents a fair solution to an issue that has unfairly burdened current electricity ratepayers. This does not sacrifice investments in the energy system. We're changing the way electricity costs are recovered, and moving funding for social programs off of hydro bills.

Electricity consumers that are eligible for the 8 per cent rebate are also eligible for GA refinancing, including all residential consumers, farms, most small businesses, long-term care homes and condominiums.

We are helping vulnerable electricity consumers by enhancing electricity support programs. For those most in need, the Save on Energy Home Assistance Program provides home energy efficiency upgrades at no cost to low-income electricity customers to help reduce future electricity bills.

We recognize that there are other electricity customers who are in need but do not meet the Home Assistance Program eligibility criteria. The Affordability Fund will provide energy efficiency measures to those Ontarians who are not eligible for the Home Assistance Program, and who are otherwise unable to make energy efficiency improvements without financial assistance. Energy efficiency improvements can help customers reduce future electricity bills and avoid future disconnections.

In March 2017, the Ministry of Energy entered into an agreement with an independent Trust to administer the Affordability Fund. The Trust will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria. The Trust's Board includes representation from three electricity distributors, two social service agencies and the Ministry of Energy (one non-voting representative).

We have expanded the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW, in addition to the consumers over 1 MW who are already eligible.

In June 2016, the government directed the OEB to examine and report back to the Ministry of Energy on options for First Nations rate assistance. Working with a First Nation Advisory Committee and the Chiefs of Ontario, the OEB submitted its report on First Nations rate assistance options to the ministry, including consideration for possible options, costs, funding mechanisms, and program development issues.

As a result, Ontario's Fair Hydro Plan included the elimination of the delivery charge for on-reserve First Nation customers through the First Nations On-Reserve Delivery Credit. This initiative helps address some of the unique challenges that on-reserve First Nation customers face, and recognizes First Nations' contribution to the provincial electricity system.

The FNDC provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs). For those First Nations residential customers served by an LDC that are charged a bundled rate and do not have a delivery charge, we are providing a credit equal to the monthly service charge. The Ontario Energy Board estimates that the First Nations Delivery Credit will provide residential customers an average monthly benefit of $85 (or $1,020 per year).

In total, there are about 21,500 on-reserve First Nations residential customers served by LDCs. who automatically qualify.

We are also providing more support for Ontario customers that are in the greatest need of rate relief. The Ontario Electricity Support Program was launched in January 2016 to provide monthly, on-bill credits to low-income households. In May this year, we increased those monthly credits by 50% across the board, and broadened program eligibility so that more Ontarians can get access to the program. The Ministry of Community and Social Services is also playing a critical role by helping to ensure that those receiving social assistance are automatically eligible for the OESP.

We currently provide a distribution rate subsidy to support to roughly 350,000 rural or remote customers through the Rural or Remote Electricity Rate Protection (RRRP). Through the Fair Hydro Plan, we expanded distribution rate protection to provide distribution rate relief to residential customers of local distribution companies (LDCs) with some of the highest rates, including some of those that receive RRRP. The enhanced program will benefit about 800,000 customers in total. Specific rebate amounts will be LDC specific and dependent on customer usage.

Additionally, we moved the majority of the cost of RRRP to be funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers. This will save the average residential rate payer an additional $1.35 per month..

In addition to these changes, other assistance programs for energy costs are available through the Ontario Trillium Benefit, as well as the Low-Income Energy Assistance Program (LEAP), which provides relief for those in need of emergency assistance on their utility bills.

We are also improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator and the Ontario Energy Board.

I'll pass it over to Deputy Minister Serge Imbrogno, who will discuss Ontario's rate mitigation measures in further detail.

Deputy Minister Response

On January 1, 2017, the Government introduced the Ontario Rebate for Electricity Consumers, which reduces electricity costs by 8 per cent on the amount before tax, an average savings of about $130 annually or $11 each month for an average residential consumer. In addition, the RRRP for low-density rural customers was increased from $31.50 per month to $60.50 per month. This reduced these customers' monthly distribution bills by an additional $29 per month.

As part of the Fair Hydro Plan, starting July 1 ,2017, the Government also provided additional distribution rate protection to provide distribution cost relief to residential customers of those local distribution companies with some of the highest costs. Customers of those high-cost LDCs will have their monthly base distribution charge harmonized at an amount determined by the OEB that reflects the lowest monthly base distribution charge that is currently charged by this group of higher cost LDCs that have had a rate application for 2017 approved by the OEB. This amount is currently set at $36.43 per month – which means that eligible customers of those LDCs will not pay more for base distribution rates than $36.43.

First Nation leaders and Political-Territorial Organizations advocated for the review of delivery charges associated with transmission and distribution assets within the context of the potential for electricity rate relief for on-reserve customers. Acting on that, as well as the information provided by the OEB and input received during LTEP engagement sessions, the Fair Hydro Plan established the First Nations On-Reserve Delivery Credit (FNDC).

The resulting First Nations Delivery Credit, which provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs), is a reflection of First Nation leadership on this issue and an example of the Political Accord coming to life.

This distribution and delivery rate relief, combined with other parts of the Fair Hydro Plan, could see some customers' total electricity bills reduced by 40-50%.

I would like to build on the Minister's statements on the Ontario Electricity Support Program, or the OESP. As rates continued to rise due to much needed investments in the electricity system, we recognized the importance of providing immediate and dependable relief to those most affected. Working with the Ontario Energy Board, the province's independent energy regulator, the OESP was launched on January 1, 2016.

Since launching, we have seen considerable uptake across the province, and with the recent changes under the Fair Hydro Plan, the Ministry is working closely with all of its partners to get as many households signed up to this program as possible. This includes important advertising, communications, and marketing efforts to get the word out to people who may be eligible for the program. It also means taking steps to streamline the OESP with existing social assistance, making it easier for low-income Ontarians to access support.

Under the Fair Hydro Plan, the monthly on-bill credits for eligible households ranges from $35 to $75. If an applicant uses electricity as a primary source of heating, uses certain energy-intensive medical devices, or identifies as an Indigenous person, they would be eligible for the enhanced credit. That credit ranges from $52 to $113 per month.

Since program launch, over 350,000 applications have been received, and about 200,000 households are already receiving on-bill credits through the OESP. We are taking important steps to improve those numbers. This includes enhancements to the

program and addressing some of the barriers to apply, like making it easier for people to provide their consent so they can finish the application process. Our work with the Ministry of Community and Social Services to streamline benefits programs is another important step in this direction.

I want to add one more thing about the OESP under the Fair Hydro Plan. This program was originally paid for through rates. That charge ended on May 1 in order to shift this program to a government-funded initiative, providing more rate relief for all customers. While the charge was small, taken together with other rate relief under the Fair Hydro Plan, these changes are making a big impact on customer bills.

I'd ask Assistant Deputy Minister Steen Hume to provide further details on Ontario's Fair Hydro Plan.

ADM Response

Over the last decade the government has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $50 billion has been invested to modernize the electricity system, including $35 billion in electricity generation to ensure the system is clean and reliable and $15.5 billion in transmission and distribution.

Ontario's Fair Hydro Plan is providing significant and immediate rate relief by spreading the costs of our investments in the electricity system over a longer period of time. It has done this through the refinancing of a portion of the Global Adjustment (GA).

By way of context, the GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs.
As Ontario invested in renewing its electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Some of these generators are expected to provide value to the electricity system beyond their contract lives. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

To relieve the current burden on ratepayers and share costs more fairly, a portion of the GA is being refinanced. In the early years, a portion of the costs covered by the GA is being refinanced to reduce pressure on today's electricity ratepayers. In later years, the cost of refinancing will be recovered from ratepayers.

The government has aligned eligibility for GA refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for 8 per cent rebate are also eligible for GA refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

All Regulated Price Plan (RPP) consumers receive GA refinancing through the Ontario Energy Board's (OEB) RPP rate setting process. Consumers not participating in RPP but who are eligible for GA refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

On May 1, 2017, new, lower RPP prices took effect, bringing the total reduction to 17 per cent. In determining the May 2017 RPP prices, the OEB made its own independent determination to partially reflect the measures that were proposed under OFHP, pending the passage of enabling legislation. As a result of the Fair Hydro Act, 2017 achieving Royal Assent on June 1st, the OEB updated RPP prices again to reflect the full benefit of GA refinancing, increasing savings from 17 to 25 per cent on average for residential consumers.

The new RPP prices will be in effect until April 30, 2018. At that time, the OEB will reset RPP prices and the GA Modifier in a way that holds increases to the rate of inflation, in accordance with the legislation.

Helping Vulnerable Consumers

Ontario's Fair Hydro Plan includes additional measures to benefit Ontarians will low incomes and those living in eligible rural or remote communities.

We recognize that there are electricity customers who are in need but do not meet the Home Assistance Program eligibility criteria. The Affordability Fund will provide energy efficiency measures to those Ontarians who are not eligible for the Home Assistance Program, and who are otherwise unable to make energy efficiency improvements without financial assistance. Energy efficiency improvements can help customers reduce future electricity bills and avoid future disconnections.

In March 2017, the Ministry of Energy entered into an agreement with an independent Trust to administer the Affordability Fund. The Trust will be responsible for distributing funds to electricity distributors across the province based on an application process and targeted eligibility criteria. The Trust's Board includes representation from three electricity distributors, two social service agencies and the Ministry of Energy (one non-voting representative).

To help reduce electricity bills for First Nations people living on reserves, we are eliminating the delivery charge for all on-reserve First Nations residential customers. We have also removed the monthly service charge for customers of licensed distributors that charge a bundled rate. The Ontario Energy Board estimates this will provide residential customers an average monthly benefit of $85 (or $1,020 per year)

In total, there are about 21,500 on-reserve First Nations residential customers who automatically qualify.

The Ontario Electricity Support Program (OESP) has also been expanded, which lowers electricity costs for the most vulnerable customers by providing a rebate directly on their bills. This program — which is income-tested and application-based — uses two scales: basic credits; and an enhanced credit for Indigenous people and for people who use electric heat as their primary source of energy or certain electrically intensive medical devices.

The eligibility for OESP has also been expanded so that more Ontarians can receive the credit. OESP credits also increased by 50 per cent. We are moving the OESP funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers.

We currently provide support to roughly 350,000 rural residential customers through the Rural or Remote Electricity Rate Protection Program (RRRP). We will expand this

support to provide rate relief also to customers of local distribution companies (LDCs) with some of the highest rates.

The enhanced program will benefit about 800,000 customers total. As an example, a Hydro One low density customer on electric heat consuming 2,500kWh/month will see their distribution charge reduced by about $75. Specific rebate amounts will be dependent on Ontario Energy Board rate-setting processes.

We are moving to have the RRRP funded by the tax base, which will reduce regulatory charges on electricity bills for all Ontario ratepayers. We project this will cost about $500 million in the 2017–18 fiscal year.

ICI Expansion

Ontario's Fair Hydro Plan also includes measures to benefit larger consumers. We have expanded the Industrial Conservation Initiative (ICI), to include electricity consumers in the manufacturing and greenhouse sectors with an average monthly peak demand of greater than 500 kW and less than 1 MW, in addition to the consumers over 1 MW who are already eligible. ICI participants can reduce electricity costs by one third on average.

ICI lowers costs for eligible consumers that reduce consumption during the top five system peak hours of the year. This benefits businesses financially and benefits the system by deferring the need to build new peaking generation. ICI consumers can reduce their electricity costs by one third on average. In 2016, ICI is estimated to have reduced peak demand by about 1,300 MW.

ICI was also previously expanded, effective January 1, 2017. To give more businesses the incentive to participate in the ICI, the eligibility threshold was lowered from 3 MW to 1 MW and sector restrictions were removed. Prior to lowering the ICI eligibility threshold and removing sector restrictions, electricity consumers with peak demand between 3 and 5 MW could only participate in ICI if they belonged to the following

sectors: manufacturing, mining, data processing, refrigerated warehousing and greenhouses.

An estimated 300 consumers were already participating in the program. With the expansion of ICI to 1 MW and the removal of sector restrictions, an estimated 1,300 consumers are eligible to pay GA according to their share of total Ontario demand in the highest demand hours of the year. The number of participants is expected to be impacted by the further expansion of ICI to include smaller manufacturers and greenhouses between 500 kW and 1 MW.

The government is also assisting consumers who are considering participation in ICI through a targeted outreach campaign delivered by the Ontario Chamber of Commerce (OCC).

Consumers of all sizes are also benefitting from the shifting of cost recovery for OESP and the majority of RRRP from electricity bills to provincial revenues, an action that is lowering regulatory charges for everyone by approximately $3/MWh.

Existing Programs

Additional programs that provide support to Ontario families in paying their bills, include:

- The Ontario Energy and Property Tax Credit saves qualifying individuals up to $1,023 per year, with a maximum of $1,165 per year for qualifying seniors.

- The Low-Income Energy Assistance Program provides emergency financial support of up to $600 for families and individuals having trouble paying their bills.

- The Northern Ontario Energy Credit helps families and individuals in Northern Ontario by providing tax credits for low- to middle-income families and individuals living in northern Ontario. The maximum annual credit for a single person is $148, and for a family (including single parents), is $227.
- The saveONenergy Home Assistance Program, which was developed to help income-eligible homeowners and tenants manage their energy use and costs

by offering detailed in-home energy assessments and installing energy-saving measures at no cost. Social and assisted housing providers also qualify for assistance in making their buildings more energy efficient.

Existing programs for businesses include:

- Industrial Electricity Incentive (IEI), which offers reduced electricity rates for companies starting or expanding operations in Ontario;
- Northern Industrial Electricity Rate Program (NIERP), which provides a rebate of $20/MWh to northern industrial consumers;
- Industrial Accelerator Program (IAP), which assists eligible transmission-connected customers to fast-track capital investment of up to $10 million for major energy-efficiency projects, equipment retrofits, process changes and new construction;
- The SaveONenergy for Business Program, which offers financial incentives for audits, retrofits and process and systems improvements to eligible distribution connected commercial and industrial customers;
- Demand Response, through which consumers can receive payment in exchange for the commitment to reduce consumption when called upon.

Ontario's Fair Hydro Plan is lowering electricity bills for residential consumers and as many as half a million small businesses and farms are also benefitting.

Efficiences in the Electricity Sector

Preamble: In the 2016 Mandate letter that was issued to you by the Premier, one of the key priorities was to drive efficiencies and maximize return on investment from the electricity sector. As you well know, finding these efficiencies would help drive the cost down for ratepayers, and I know our government is always looking for ways to help minimize price impacts on Ontario families and businesses.

In March, you announced the Fair Hydro Plan, which lowered bills by 25 per cent on average for all residential consumers and as many as 500,000 small businesses and farms. As part of the Fair Hydro Plan, you also recommitted to finding more efficiencies in the energy sector. Your Ministry stated that "Ontario's commitment to lowering energy costs for ratepayers would include working with the province's agencies to identify opportunities to drive efficiency and productivity improvements."

Q7: Could you please provide more detail on how the Government is moving forward with driving efficiencies in the electricity sector?

Minister response

The government has been working hard to reduce electricity ratepayer costs and will continue to look for efficiencies in the system wherever possible without compromising the reliability of our system.

We have already taken several steps to mitigate system costs, including:

- Renegotiating the Green Energy Investment Agreement (GEIA) in 2013, to reduce contract costs by $3.7 billion.
- Reducing Feed-in Tariff (FIT) prices through annual price reviews, saving ratepayers at least $1.9 billion.
- Introducing a competitive Large Renewable Procurement (LRP) process to drive down costs approximately $1.5 billion lower than the 2013 LTEP forecast.
- Suspending the second round of the LRP process and the Energy-from-Waste Standard Offer Program, resulting in up to $3.8 billion in savings, relative to the 2013 LTEP forecast.

- Limiting the Feed-In Tariff (FIT) 5 procurement target to 150 MW and suspending future FIT procurements - resulting in savings of up to $129 million.

- Deferring the construction of two new nuclear reactors at Darlington. This was in response to the supply and demand expectations of the 2013 LTEP, avoiding an estimated $15 billion in new construction costs.

- Maximizing the value of our existing nuclear fleet by starting Bruce refurbishments in 2020, instead of 2016, thus helping to achieve $1.7 billion in savings relative to the 2013 LTEP forecast and by continuing to operate Pickering up to 2024, pending regulatory approvals, which could save ratepayers as much as $600 million.

The Province's 2017 Long-Term Energy Plan will focus on continuing to take additional costs out of the system, and address affordability beyond the short and medium term. We have a robust energy supply and are in a good position to improve efficiency, increase transparency, and enhance opportunities for innovation and competition to reduce system costs. That is why Ontario's Fair Hydro Plan includes improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, the IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The project is expected to save up to $5.2 billion over a 10-year period, and forms a key component of Ontario's plan to ensure the affordability of electricity.

DM response

The Government's agency that is responsible for regulating local electricity distribution utilities (LDCs) has a mandate to regulate the electricity distribution and transmission

sector in the public interest, ensuring the financial viability of the sector while promoting reliable service to customers at just and reasonable rates.

Since 2012, the OEB has taken action – through its Renewed Regulatory Framework for Electricity – to more closely link rate regulation with performance measures and outcomes. This includes rolling out LDC Scorecards and revising rate setting processes.

The LTEP will direct the Ontario Energy Board (OEB) to continue to enhance its efforts to improve the performance of local electricity distribution companies (LDCs) and transmitters. The OEB will make utilities more accountable to their consumers, promote efficiencies and cost reductions, encourage partnerships, and ensure regulatory processes are cost-effective and streamlined to accommodate changing utility business models.

ADM response

The OEB has tools available to it to enhance its performance-based regulatory processes. Such enhancements may incentivize LDCs to realize additional efficiencies. Potential enhancements may include:

- Increasing productivity and stretch factors to make LDCs realize more year-over-year productivity gains;
- Financial penalties for LDCs who do not meet performance expectations;
- Incentives to encourage LDC collaboration and partnerships to realize cost savings;

Opportunities also exist to modernize OEB regulatory compliance processes and streamline OEB processes to reduce regulatory costs and decrease time for regulatory decisions.

Conservation

Preamble: I've heard that when the Ministry plans for Ontario's electricity needs, conservation will be the first resource considered. You've said before that for every dollar invested in conservation programs, Ontarians have avoided about two dollars in costs to the electricity system.

Some of these initiatives are targeted to residential consumers and businesses, and I've heard from a few in my riding who have taken advantage of these conservation programs.

Q8: What conservation programs are available to promote affordability and give customers choices on how to increase the energy efficiency of their homes and businesses?

Minster response

Ontario has made great strides in transforming the electricity system into a clean, reliable and affordable electricity system.

Ontario's Conservation First policy and conservation programs are helping customers manage their energy bills, are offsetting system costs and are helping the Province achieve its greenhouse gas reduction targets.

Between 2005 and 2015, approximately $3.3 billion was invested in electricity conservation and demand management programs, including programs delivered by LDCs, the Ontario Power Authority (now IESO), and the Ministry of Energy's Home Energy Saving Program.

Between 2006 and 2015, electricity conservation programs and improvements in building codes and product efficiency standards helped Ontarians save:

- 13.5 TWh of electricity in 2015 – enough to power the cities of London, Kingston, Ottawa, Peterborough and Thunder Bay in 2015.

During the same time, the conservation programs delivered by Ontario's natural gas utilities saved over 1,700 million cubic meters of natural gas, equivalent to the natural gas used by over about 800,000 homes in a year.

Conservation programs are also resulting in significant GHG emission reductions. Electricity and natural gas conservation programs through the Conservation First

Framework, the Industrial Accelerator Program and the Demand Side Management Framework are expected to result in over 3.5 Megatonnes of GHG emission reductions in 2020. This is equivalent to taking over 800,000 cars off Ontario's roads for one year.

Through collaborative efforts by the IESO and the Demand Response Working Group, Ontario's demand response resources have grown significantly above the 2013 LTEP projections, and demand response has become a mature and competitive resource.

The IESO has successfully transitioned from securing demand response through multi-year contracts to an annual competitive demand response auction. The demand response auctions held in 2015 and 2016 reduced the cost of obtaining demand response by up to 27% when compared to previous contracts.

In order to further promote affordability, as part of the Ontario Fair Hydro Plan, this year my Ministry established an Affordability Fund to provide energy efficiency measures to Ontarians who do not qualify for low income conservation programs, and are unable to make energy efficiency improvements without support.

And, to improve the availability of conservation programs for low-income customers who are most in need, in August of this year I directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018. This program is expected to enhance and expand access to the Save on Energy Home Assistance Program.

My Ministry also remains committed to encouraging collaboration of conservation efforts among electricity and natural gas utilities, and working with the Ministry of Environment and Climate Change to provide a coordinated, one-window approach to existing conservation and new low-carbon technology programs offered by the Green Ontario Fund.

A coordinated approach is convenient for customers and can provide cost-efficiencies in program delivery.

To promote efficiencies and leverage IESO's significant program delivery expertise and resources, in August of this year I also issued direction to enable the IESO to support the design and delivery of Green Ontario Fund programs.

I'll ask the Deputy Minister, Serge Imbrogno, to speak in more detail about our important conservation programs and how they are promoting affordability by supporting Ontarians in improving their energy efficiency of their homes and businesses, and helping meet our climate change goals.

DM reponse

Thank you Minister.

Ontario's conservation and energy efficiency programs are helping Ontarians to manage their energy use and utility bills.

Conservation is the cleanest and most cost-effective energy resource. Historically, for every $1 invested in electricity efficiency programs, Ontarians have avoided about $2 in costs to the electricity system.

We know that conservation requires a sustained commitment to achieve ongoing savings over the long-term.

That's why on January 1, 2015, Ontario launched a six- year electricity Conservation First Framework, which is supporting the development of new and enhanced electricity conservation programs to meet local needs and offer more choice for consumers:

The Framework is expected to achieve 7 TWh of savings in 2020 and assist the province in achieving its long-term conservation target of 30 TWh in 2032.

In addition, on December 22, 2014, the Ontario Energy Board (OEB) released the six-year natural gas Demand Side Management Framework, doubling budgets and bringing Ontario's total spending on DSM in-line with leading jurisdictions.

Both these frameworks - The Conservation First Framework and the natural gas Demand Side Management Framework – are aligned to enable greater collaboration of conservation efforts among electricity and natural gas utilities.

And we are giving Ontarians more options. Outside of the conservation first and natural gas DSM frameworks, Ontario has a number of initiatives that contribute towards a clean, reliable and flexible electricity system. These include, but are not limited to:

Time-of-Use pricing pilots

As part of its review of the Regulated Price Plan, the OEB is working with electricity distributors to test innovative Time-of-Use price structures.

The results will help guide OEB decisions on potential new price plans that could give customers greater control, be better matched to their lifestyles and help improve system efficiency.

Demand Response auctions and Demand Response pilots

Demand Response, or DR, programs are continuing to reward electricity customers for reducing their electricity use at specific times of power system need.

The IESO is holding annual DR auctions, and conducting DR pilots to learn more about the operational capabilities of DR resources, and to assess the potential for DR to provide further benefits to the electricity system.

I'll ask the Assistant Deputy Minister of the Conservation and Renewable Energy Division, Kaili Sermat-Harding, to expand on the conservation and energy efficiency programs available in Ontario, as well as how these programs are benefitting Ontarians.

ADM reponse

Thank you. I am happy to expand on the details of the suite of conservation programs that are available in Ontario.

I'd like to start by highlighting electricity and natural gas conservation programs, and province-wide multi-fuel programs enabled through the Green Investment Fund.

Residential Electricity Programs

For residential customers, local electricity and natural gas distribution are delivering a suite of conservation programs.

Under the Save on Energy brand, and with support from the IESO, customers have access to:

- The **Save on Energy HEATING AND COOLING INCENTIVE**, which provides up to $850 in incentives for the purchase and installation of eligible central heating or cooling equipment through a participating contractor. Electrically heated homes can receive up to $4,000 rebates for high-efficiency heat pumps. The heating and cooling system is one of the biggest investments a homeowner will make.
    - Once the installation of central heating or cooling equipment is complete, a customer can save up to $325 a year on their electricity costs.
    - Electrically heating homes can save up to 50% on their heating costs by switching to high-efficiency heat pumps.

        - In addition, contractors can help customers program their heating and cooling system for different times of the day, offering further opportunities to save.

It is helpful to describe a participant's experience in the Heating and Cooling Incentive program:

        - The first step is to find a participating contractor on the Save on Energy website, which has a contractor look-up based on postal code, or by company name.
        - Step two is to install an eligible measure to make your home more comfortable and energy efficient. This could be a qualified high efficiency furnace, qualified central air conditioner, or qualified heat pump (if you have electric heating in your home).
        - The contractor will then submit an application on the participant's behalf. The contractor will send the application to the participant to confirm the application details, and so that the participant can submit proof of purchase.
        - The last step is for the participant to receive their rebate. A cheque will arrive in approximately four to eight weeks.

    - **Save on Energy Instant Discounts** are available starting October 6, 2017 at participating retailers for a wide variety of energy saving measures, such as LEDs, power bars and more. This program is taking the place of Coupons, which ends September 30.
    - **Save on Energy HOME ASSISTANCE PROGRAM** was developed to help income-eligible homeowners and tenants manage their energy use and costs by offering detailed in-home energy assessments, installing energy-saving measures at no cost, and advice on steps that can be taken to save even more energy.
        - Measures can include energy-saving light bulbs (LEDs), a power bar, low-flow showerhead and faucet aerators, new energy-efficient refrigerator or window air conditioner.
        - For electrically-heated homes, residents may be eligible for a programmable thermostat, weatherstripping around doors and windows, and additional insulation in the attic and basement.

- Social and assisted housing providers also qualify for assistance through this program to make their buildings more energy efficient.
- Further, in order to improve the availability of conservation programs that help low-income customers, in August of this year I directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018. This program is expected to enhance and expand access to the Save on Energy Home Assistance Program.
- On August 4, 2017, to further improve the availability of this program, the Minister directed the IESO to centrally deliver a low-income conservation program across LDC service territories beginning January 2018.
- It is expected that IESO delivery will result in enhancements and improved access to the Save on Energy Home Assistance Program.

I will describe a participant's experience in the HAP program:

To find out if they qualify, an interested customer would contact their local electricity distributor.

Once they've been deemed eligible, an HOME ASSISTANCE expert will make an appointment to visit their home. They'll review how the customer is using energy, including:

- what light bulbs they are using
- how old their major appliances are, and
- whether drafts are coming in through their doors, windows, attic or basement.

The HOME ASSISTANCE expert will also be able to advise if their home is eligible for a new, energy-efficient refrigerator or other appliance, such as a room air conditioner, or additional insulation in your attic or basement.

Through one or two additional appointments, the HOME ASSISTANCE expert will:

- give advice on changes to save energy,
- supply and install upgrades at no charge, and

- make sure the customer knows how to use all their new energy-saving upgrades correctly.

Utilities have also been innovating to help serve their customers better. As of May 2017 there are 10 new local programs in market and 20 pilots have been completed, are in market or under development. When a pilot or local program demonstrates good results and a cost-effective program idea, it can be adopted province-wide.

For example, Hydro One Networks launched the Heat Pump Advantage pilot program in Fall 2015 to help customers with electric space or water heating to take advantage of new cold-climate heat pump technologies. Enwin Utilities launched a similar heat pumps pilot in April 2016.

Results from these pilots helped to inform a March 2017 study by the IESO: on the opportunity for residential heat pumps in Ontario. The study found that residential heat pumps can help electrically-heated homes reduce their energy use for heating by up to 60%, and that there is near-term market potential for the technology in Ontario.

As a result of the pilots and the study two new province-wide initiatives have been launched:

- In May 2017, the IESO partnered with Enbridge Gas Distribution and Union Gas to test integrating electricity saving measures into the gas utilities' home audit and retrofit programs, expanding eligibility to electrically-heated homes and providing incentives for heat pump installations.
- And in July 2017, the Save on Energy Heating and Cooling Incentive Program was re-launched and now includes incentives for installing heat pumps in electrically-heated homes.

<u>Residential Natural Gas Programs</u>

There are also a number of programs available to residential natural gas customers under the **Demand Side Management Framework**.

- **Enbridge and Union Gas** are providing rebates to help qualifying home owners with rebates for energy assessments and home renovations to make energy efficiency improvements, including insulation in basements, walls, and attic, as well as air sealing.

- For example, the **Home Energy Conservation Program** and **Home Reno Rebate Program** offer between $1,600 and $5,000 cash back for eligible energy saving upgrades.

On February 4, 2016, Ontario announced a $100 million investment from the Green Investment Fund to enhance and expand the **Home Energy Conservation Program** and **Home Reno Rebate Program** delivered by Enbridge Gas Distribution and Union Gas. This investment enhanced the programs to be offered province-wide and to homes with primary heating by natural gas, oil, propane and wood.

This investment is expected to enable audits and retrofits of approximately 37,000 homes and save approximately 1.6 Megatonnes of cumulative lifetime greenhouse gas emissions, contributing to the province's GHG emissions reductions targets.

On May 31, 2017, the IESO launched a **Whole Home Pilot** in partnership with Enbridge Gas Distribution and Union Gas. . The pilot is testing the integration of incentives for electricity-saving measures in the home energy audit and retrofit programs funded through the DSM Framework and Ontario's Green Investment Fund, and the expansion of the program to electrically-heated homes.

The pilot is expected to be in market until December 31, 2017. The IESO will evaluate customer satisfaction, cost-effectiveness and program results to determine the future of this program enhancement.

Through these partnerships, every homeowner in Ontario can now benefit from a wide range of energy-saving rebates for the whole home. Ontarians can receive thousands of dollars in incentives through the Ontario Home Energy Conservation Incentive Program to get an energy assessment of their home and make upgrades throughout the house to use less energy – no matter how the home is heated.

The **Home Winterproofing Program** and **Home Weatherization Program** offer eligible low-income households a home energy assessment and insulation and draftproofing measures at no cost to help manage natural gas bills.

<u>Business Electricity Programs</u>

Now I'd like to turn our attention to the many programs we have for Ontario businesses.

The **Save on Energy for Business** electricity conservation program, made available through local distribution companies, with the support of the IESO, offers financial

incentives to help small businesses install energy-efficient equipment and improve the energy efficiency of their buildings.

There are several programs available to the commercial and institutional sector, including small businesses, municipalities, universities, schools and hospitals, through Save on Energy.

An energy audit is the first step in understanding how energy is being used in buildings. This will help to identify opportunities to reduce operating costs and improve performance.

Business customers are eligible for incentives to complete energy audits assessing the potential for energy savings through equipment replacement and operational practices.

The **AUDIT FUNDING** incentive is intended to cover up to 50% of the cost of an energy audit.

Under the **SMALL BUSINESS LIGHTING** program, qualifying businesses can get up to $2,000 in lighting upgrades.

Further upgrades to lighting, heating, ventilating and air conditioning (HVAC), and other systems can qualify for financial incentives worth up to 50% of project costs, through the **RETROFIT PROGRAM**.

The RETROFIT PROGRAM helps businesses install and benefit from newer, more energy-efficient solutions, allowing them to operate more efficiently and improve their bottom line.

Incentives are available for high-efficiency equipment such as lighting, motors and heating, and for installing new control systems to improve the overall efficiency of buildings.

Ontario is a leading jurisdiction in North America when it comes to cost-effective funding for energy managers. Energy managers have the technical expertise to identify and install energy-saving equipment and technologies. To ensure all businesses has access to energy managers, funding is provided through LDCs and the IESO for the following:

- The **LDC ENERGY MANAGER PROGRAM** serves businesses connected to the local distribution system
- The **INDUSTRIAL ACCELERATOR PROGRAM (IAP) ENERGY MANAGER PROGRAM**, delivered by the IESO,

serves businesses connected to the provincial transmission system

- The **MULTI-SITE CUSTOMER ENERGY MANAGER PROGRAM**, delivered by the IESO, provides centralized delivery for businesses with multiple sites connected to different LDC distribution systems
- The **SECTOR-BASED ENERGY MANAGER PROGRAM**, which is presently under development by the IESO, will provide energy manager funding to associations or businesses that serve a sector of Ontario's economy. Funding will be awarded based on a competitive procurement process.

For larger more complex projects and operations – for example industrial or institutional facilities, the Save on Energy **PROCESS AND SYSTEMS** program is designed to identify, implement, and validate energy efficiency projects from start to finish.

Incentives up to $50,000 are available for engineering studies and up to 70% of project costs for energy efficiency upgrades to reduce the payback period on large energy projects.

Home builders and renovators are encouraged to design and construct energy-efficient homes through **NEW HOME CONSTRUCTION** incentives for energy-saving measures.

And for those who own, operate, and manage buildings, **TRAINING AND SUPPORT** initiatives help provide access to the most up-to-date training, such as in building commissioning, certified measurement and verification, and how to be an energy manager.

Additionally, for those transmission-connected companies like our auto manufacturers, chemical, steel, and other large industry, the IESO's **Industrial Accelerator Program (IAP) provides** assistance to fast track capital investment in major energy conservation projects.

To enhance IAP delivery, following a December 2016 Minister's direction to the IESO, the distribution-connected sites of transmission-connected companies are now eligible to participate through the IAP program.

To summarize the IAP program offerings, the IAP is made up of four program streams:

- **RETROFIT PROGRAM**

- **PROCESS AND SYSTEMS PROGRAM**
- **HIGH PERFORMANCE NEW CONSTRUCTION**
- **MULTI-SITE CUSTOMER ENERGY MANAGER PROGRAM**

The **ENERGY PERFORMANCE PROGRAM INCENTIVES FOR MULTI-SITE BUSINESSES**, delivered by the IESO, provides centralized delivery for businesses with multiple sites connected to different LDC distribution systems.

The program encourages whole building energy performance improvements through incentives per kilowatt-hour of savings per year for up to four years.

This pay-for-performance model encourages participants who are able to make behavioural and operational changes alongside capital investment projects to achieve and grow energy savings over multiple years.

Business Natural Gas Programs

Ontario's two largest natural gas utilities, **Enbridge Gas Distribution and Union Gas**, also offer their business customers incentives to install energy-efficient equipment and improve the energy efficiency of their buildings.

They provide free services and financial incentives designed to help their customers make the most of the energy they consume. Enbridge and Union will work with their customers to design a solution that meets their customer energy needs and financial objectives

For example, Enbridge's **Energy Compass program** is a free benchmarking diagnostic service to help identify opportunities for capital and operational energy efficiency improvements in commercial buildings.

An Energy Compass report will:

- Provide recommendations for capital and operational improvements.
- Compare the energy performance of buildings in a portfolio.
- Identify buildings with higher-than-average natural gas consumption.
- Identify applicable Enbridge financial incentives that can offset the cost of making recommended energy-efficiency improvements.

Enbridge also offers its **Run It Right** program, which helps businesses to enhance existing building systems and operations to find energy efficiencies.

Unlike other incentives that require installing new equipment, the Run It Right program analyzes a building's energy performance in three simple steps to identify, implement and monitor low- and no-cost operational improvements that can lead to up to five per cent energy savings.

Both Enbridge and Union Gas provide custom and fixed **retrofit** incentives for efficient building equipment and systems retrofits such as space heating, water heating and food services.

Space Heating retrofit options are broad and include:

- Air Curtains
- Demand Control Ventilation
- Condensing Boilers, High-Efficiency Boilers, and High-Efficiency Boilers Energy and Heat Recovery Ventilation
- Infrared Heaters
- Condensing Make-Up Air Units

Water Heating retrofit options include ozone laundry systems, Energy Star dishwashers, condensing boilers and gas water heaters.

And retrofits for Food Services include demand control kitchen ventilation systems, and Energy Star qualified dishwashers and fryers and under-fired broiler.

<u>Mid-Term Review of CFF and DSM Frameworks</u>

As the Deputy Minister mentioned, the IESO and OEB are undertaking mid-term reviews of the electricity and natural gas conservation frameworks.

The IESO's Mid-Term Review of the Conservation First Framework and the Industrial Accelerator Program is focusing on conservation targets and budgets, lessons learned on LDC funding models, customer needs, conservation integration with regional planning. It will also look at alignment with Climate Change Action Plan (CCAP) initiatives and post-2020 approaches to energy efficiency.

In order to complete the review, the IESO completed an **Achievable Potential study** for electricity conservation in Ontario.

The Achievable Potential study was released on June 30, 2016 and found a potential of 7.4 TWh of savings that could be achieved by 2020 within the existing CFF budget - higher than the 7 TWh savings target currently established for 2020.

The IESO will use this study during their Mid Term Review as well as in their regional planning and long term energy planning processes.

In June 2017, the OEB initiated the mid-term review of the DSM Framework for natural gas conservation programs, which is expected to be completed by December 1, 2018. The review is looking at gas utility budgets and targets, as well as how the programs are meeting customer needs and interactions with Ontario's cap and trade program.

Demand Response

Business and residential customers may also be able to participate in demand response programs. Demand response programs reward electricity customers for reducing their electricity use at specific times of power system need. An example of demand response is a factory temporarily halting a process, or a group of residential consumers reducing their air conditioning when electricity demand is high.

IESO's second demand response auction in December 2016 procured approximately 455 MW for the summer commitment period (May 2017 to October 2017) and approximately 478 MW for the winter commitment period (November 2017 to April 2018).

Successful participants in the 2016 demand response auction include demand response aggregators (EnerNOC, Enershift/Rodan, NRG Curtailment Solutions, Ohmconnect, GC Project LP) and industrial consumers (Tembec, Resolute, Gerdau Ameristeel).

For the first time since the launch of the DR auction, a residential DR aggregator (OhmConnect) was successful in procuring DR capacity (1 MW capacity) in the 2016 DR auction. IESO is continuing to work with stakeholders to facilitate further participation of residential DR in future DR auctions.

The IESO is also running demand response pilot projects to learn more about the operational capabilities of demand response.

The next demand response auction is expected to take place in December 2017.

Affordability Fund

As the Minister and Deputy Minister mentioned, the government established the Affordability Fund as a part of the Ontario Fair Hydro Plan. The Affordability Fund will

provide energy efficiency measures to electricity residential customers who do not qualify for the Save on Energy Home Assistance Program and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and facilitate efficient distribution of funds to electricity distributors.

Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of low income organizations, in establishing eligibility criteria and guidance on funding allocation methodology. Program details are currently being finalized by the Trust.

The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.

It is expected that distributors will be able to start applying for funds this fall.

Green Ontario Fund

I have shared examples of the variety of conservation programs available, and ways our agency is now looking into further ensuring programs are meeting customer needs. Now I'd like to close with some words about how our Ministry is working with the Ministry of Environment and Climate Change to help further expand energy choices for Ontarians, and help the Province reach its GHG reduction targets.

The Ministry is committed to encouraging collaboration of conservation efforts among electricity and natural gas utilities, and working with the Ministry of Environment and Climate Change to provide a coordinated, one-window approach to existing conservation and new low-carbon technology programs offered by the Green Ontario Fund.

The Ministry of Energy also continues to work closely with its agencies and MOECC to support implementation of Green Ontario Fund programs.

In August 2017, the Ministry also directed the IESO to work with the MOECC and the Green Ontario Fund to support the design and delivery of Green Ontario Fund Programs. with a focus on reducing greenhouse gas emissions associated with energy usage and energy sources from Ontario residents and businesses.

IESO is offering its expertise, resources and infrastructure to support the Green Ontario Fund.

On August 30, 2017, Ontario launched the **Green Ontario Fund** and the **GreenON website**, a one-stop-shop to programs and rebates to reduce energy costs and help fight climate change.

On the same day, the Green Ontario Fund also launched the **GreenON Installations program**, which provides, for a limited time, a free home energy review and smart thermostat for eligible homes.

Coordination of Green Ontario Fund programs with existing conservation and energy efficiency programs will expand the offerings for customers and help achieve the government's energy savings and GHG emissions targets.

Closing

Ontario homes and businesses can take action to manage their energy bills by participating in Ontario's suite of conservation and energy efficiency programs.

The Ministry of Energy will continue to work with its agencies to ensure there are programs in market that are meeting the needs of Ontarians.

We will also continue to support MOECC to promote a coordinated, one-window approach to existing conservation and new Green Ontario Fund programs.

Smart Meters, Smart Grid and Grid Modernization

Preamble: Minister, you've mentioned in your lead-off that our government has had to make significant investments into our electricity system to make it more reliable. I believe that a part of these investments include smart meters and the smart grid. Several constituents in my riding have raised concerns about smart-meters, saying they don't understand why they were installed in the first place. And while I'm a little bit familiar with smart meters, and have heard that they help us conserve energy and drive costs down, I'm less clear on what the smart grid does.

Q9: Could you please explain what a smart meter does, what the smart grid is, and how they are advancing grid modernization in the province?

Ministers Response

The smart meters installed for nearly all of Ontario's residential and small business customers enable time-of-use pricing, giving Ontarians a tool to manage their electricity costs.

Smart meters are also helping electric utilities respond quickly to outages.

Smart meters, however, are only the first step in building a smart, modern grid for Ontario. The basic infrastructure delivering electricity to Ontarians has largely remained unchanged for decades.

New smart grid and grid modernizing technologies – including sensors, smart meters, and communications infrastructure – can provide the data and information needed to encourage new business models and enable customer choice.

These technologies can also benefit consumers and distribution companies through better reliability, improved asset performance, and resiliency to external events.

Grid modernization will enable Ontarians to realize the full value of emerging technologies and applications such as electric vehicles, electricity storage, and home energy automation systems.

These value propositions are enabled by our early investments in smart meters. They are a catalyst for modernizing our energy infrastructure and for providing customers with greater visibility and control of their energy use.

DM Response

Ontario has defined the smart grid as "the advanced information exchange systems and equipment that – when utilized together – improve the flexibility, security, reliability, efficiency, and safety of the integrated power system and distribution systems."

This definition is important. The focus of any efforts to modernize our electricity system – which includes the wires, the transformer stations, and utilities – must be done in a way that improves this infrastructure and provide better service to customers.

Smart meters are the platform upon which these improvements are being built. With the old, outdated analog meters, utilities had limited information about how consumers were using electricity over time, and the pressures that this energy demand exerted on the overall system.

With smart meters now in place, utilities are now empowered with information to manage their systems more efficiently and design better programs for customers. But more importantly, customers now have a new platform to become proactive consumers.

Time-of-Use, Green Button, and intelligent thermostats – these technologies are enabled by smarter infrastructure and a modern grid.

ADM Response

A smart meter is a digital meter that measures a consumer's electricity consumption on a time-interval basis and remotely relays it back to the Local Distribution Company (LDC) for billing purposes.

The primary difference between a smart meter and an analog meter – what was used by residential and small businesses prior to the Smart Metering Initiative – is how power consumption is tracked.

With analog meters, there was no means for utilities to track energy consumption remotely. Utility service workers would periodically take meter readings, which were used to determine how much power was consumed and what to charge. Customers could also report their usage in the same way.

Smart meters changed this approach. They are able to measure usage with significant accuracy and can remotely transmit this information to utilities using information and communication technology systems, not unlike how your mobile phone works.

This provides nearly instant information to the utility, and as I will describe in a moment, can do the same for customers through initiatives like Green Button. Smart meters are also the foundation for a Smart Grid and can help identify and eliminate service interruptions.

Over 4.8 million smart meters are being used to enable time-of-use pricing – the price we pay for electricity now better reflects the cost of producing it at peak and off-peak times.

With time-of-use, customers have the ability to better manage their costs by reducing or shifting their consumption to off-peak times when electricity is less expensive to produce. Doing this reduces Ontario's overall peak demand which provides environmental benefits, and means we can defer or avoid costs to invest new generation infrastructure.

Time-of-use pricing is regulated through the OEB's Regulated Price Plan, or RPP.

On November 16, 2015, the OEB released its RPP Roadmap identifying a 5-point plan for making changes to the RPP to better respond to policy objectives, improve system efficiency, and give consumers greater control. The OEB expects to implement this plan over the next 3 to 5 years.

Among their considerations are the following:

- Updating the RPP objectives to place a greater focus on peak demand reduction, efficient system operation and long-run system costs.
- Exploring opportunities to improve time-of-use communication, launch benchmarking pilots and undertake data collection initiatives aimed at enhancing consumer understanding and ability to respond to a pricing plan.
- Designing and executing pilots to assess customer response to alternative price structures.
- Undertaking a significant data collection initiative to better understand the needs of small business consumers.
- Working with the government and IESO to reduce barriers to set optimal pricing.

The OEB is undertaking TOU pilots as a part of its review of the RPP. The pilots include both price and non-price elements to satisfy two of the objectives of the RPP Review: implementing price pilots and empowering consumers. Pilots have begun rolling out and will run for at least one calendar year. The results of the pilots will inform future OEB decisions on offering customers choice between different TOU price plans province wide.

Smart meters greater benefits than just time-of-use pricing.

Smart meters are also helping electric utilities pin-point and respond more quickly to outages. They are giving utilities the granular information they need to monitor, operate and plan the system more efficiently.

By remotely and securely transmitting hourly meter reads, smart meters allow LDCs to deliver electricity to consumers more efficiently by reducing the requirement for manual meter readings and estimated bills. Other operational benefits for LDCs include enhanced grid visibility, improved outage management and more informed system planning.

Smart meters also facilitate participation in conservation and demand response programs which are designed to help consumers better manage their usage while simultaneously helping to manage demands on the system.

Smart meters are part of and the foundation for a smart grid, which will enable Ontarians to realize the full value of emerging technologies and applications such as electric vehicles, sto, and home energy automation systems.

A ‘smart grid’ uses modern sensors, monitoring, communications, automation, and computer systems to improve the flexibility, reliability and efficiency of the electricity system.

It can address many of the challenges our LDCs currently face.

For instance, with some assets in place for over 50 years, there is a need to refurbish or replace with new investments as necessary to meet system growth.

As infrastructure typically incurs high capital costs, utilities can look to smart grid technology for look for opportunities to leverage solutions that continue to maximize the use of existing assets.

Smart grid technologies can help increase the resilience of the distribution grid. This will help Ontario’s LDCs address extreme weather events.

In 2015, weather was the next most common reason for power outages in Toronto (after equipment failures and loss of supply from the transmission system).

On the weekend of December 21-22, 2013, a significant ice storm moved through Southern Ontario. Ice accumulation resulted in downed branches, trees and power lines, which resulted in over 500,000 customers losing power in Ontario.

There is a strong business case for continued investment in the smart grid.

According to Navigant’s *Smart Grid Roadmap*, if Ontario continues to invest in smart grid through 2035, the province can realize a net present value of $6.3B net present value by 2045.

This means building on our investment in smart meters, leveraging the infrastructure in place to build a modern grid for Ontarians.

Grid modernization involves changing from the traditional “analog” system to one that is digital, using sensors and modern communications to gather key data about how the system is working.

A modern grid can provide a number of important services for Ontarians:

- It can give customers more control of their energy use, and to interact with the system instead of just consuming power;

- It can provide much greater visibility, allowing utilities to see how their system is working in real time so they can quickly address problems and plan a more

efficient system; and

- And it can integrate new technologies – like energy storage, EVs, home energy automation systems, and renewable generation – in a way that both helps Ontarians control their energy use and optimizes the operation of our distribution grids.

Through the *Smart Grid Roadmap*, other independent studies, and feedback during our Long-Term Energy Plan engagements, we have heard that there are barriers to grid modernization. These technologies are much different than the ones made by our distribution companies over the last decades, and new to regulatory oversight.

Ontario's electricity sector faces barriers in incorporating these technologies where they make sense, including those of a cultural, technical, and regulatory nature. Moving forward, Ontario's approach to grid modernization is about exploring and addressing these barriers. In doing so, the Ministry and its agencies will aim to create the right environment for LDCs to make the best decisions for their systems and their customers. Enabling these investments will allow Ontario's LDCs to get even more value out of our smart meter deployment.

Other elements of a modern Ontario grid include the Smart Grid Fund, energy storage, meter data management, and electric vehicle integration.

The Smart Grid Fund provides financial resources to help companies, electricity utilities and organizations to demonstrate and commercialize the next generation of smart grid solutions by:

- Developing and advancing the smart grid in Ontario in the near term (improving reliability and flexibility of the electricity grid)
- Creating economic development opportunities and jobs for Ontario
- Reducing risk and uncertainty of important electricity sector investments.

There are 38 projects supported by Smart Grid Fund representing $50M for a total sector investment of approximately $200M.

These projects cover the following technology areas: grid automation, data management, home energy management, electric vehicles, electricity storage, microgrids and cyber security.

A third call for applications to the SGF launched on October 7, 2015. These projects are now underway.

Many of these technology focus areas were identified as high-value propositions by Navigant's *Smart Grid Roadmap*.

Meter data management is also part of the Ontario Smart Grid.

The province's Meter Data Management and Repository (MDMR) is the central system that stores and processes data for all smart meters in Ontario. The IESO, in keeping with its designation as the Smart Metering Entity (SME), is currently responsible for housing and operating the MDMR.

The MDMR receives hourly time and date-stamped meter reads from smart meters and performs a process referred to as Validating, Estimation and Editing (VEE) in order to return TOU framed data to LDCs for customer billing.

Every day, the MDMR receives between 100-120 million meter reads from residential and small business customers and processes between 200,000 – 300,000 billing requests from LDCs.

Ontario is also acting to leverage the data within the MDMR to realize the benefits to consumers from this consumption data, in particular by making non-personal information available to third parties to assist them in developing new innovative products and services that will enhance customer choice and control.

On January 26, 2016, the OEB issued an Order requiring that the SME expand the scope of data the MDMR collects.

To fulfill this mandate, the OEB has ordered the SME to begin collecting additional information, such as:

- Postal code.
- Distributer rate class.
- Commodity rate class.
- Occupant change data.

The SME started collecting this data on January 1, 2017.

This year, the SME established the Data Strategy Advisory Council to provide input in the review and development of products and processes for the implementation of third party access to MDMR data. Ministry staff are observers on the Council, which is currently focused on completing a privacy review of MDMR data, preparing several pilot projects, and establishing a framework for broad stakeholder engagement.

Throughout the design, implementation, and operation process, the SME will be guided by the Information and Privacy Commissioner's Privacy by Design principles, ensuring the anonymity of smart meter data, and security and privacy for Ontarians.

This third-party access platform is expected to launch in 2018.

The SME has also filed an application with the OEB for a reduced Smart Metering Entity Charge. This charge is included in the electricity bills of Ontario's residential and small business customers. If approved, the Smart Metering Charge will go down to $0.59 per month, a reduction of $0.20. The SME will contintue to provide its core functionality – storing, verifying, and transforming smart meter data into time-of-use data – and implment the third party access platform, all at a reduced rate for Ontario's ratepayers.

Renewable Energy for Residential

Preamble: In the 2013 Long-Term Energy Plan (LTEP), your ministry committed to examining the potential of transitioning the microFIT program from a generation purchasing program to net metering. Net metering is different, as it allows you to send electricity generated from renewable sources to the distribution system for a credit towards your electricity costs.

I've also heard that this year the microFIT and FIT program will be winding down. However, my constituents are still interested in generating their own electricity from renewable energy.

Q10: Minister, could you please describe what opportunities homeowners and communities have to generate their own electricity from renewable energy?

<u>Minister response</u>

The rapid growth of Ontario's clean tech and renewable energy sectors has attracted billions of dollars in investment to Ontario and led to the creation of thousands of new jobs.

As Ontario looks towards the future, green energy will remain an important part of both our electricity supply mix and our economy, supporting jobs and growth across the province.

As the FIT and microFIT programs wind down at the end of this year, Ontario is transitioning to a net metering framework to provide opportunities for homeowners,

businesses and communities to continue to play a part in Ontario's clean energy future by generating their own electricity from renewable energy.

We engaged stakeholders and in July we updated the net metering regulation to remove the 500 kW project capacity size limit and clarify the ability to pair energy storage with renewable energy systems.

The updated regulation provides greater opportunities for larger commercial and industrial electricity customers and clarity for combining energy storage technology with renewable generation, as well as streamlining other aspects of how net metering is delivered in the province.

The Ministry has also been examining potential additional net metering updates related to third-party ownership of net-metered generation and inclusion of virtual net metering in Ontario's net metering framework.

The Ministry has engaged stakeholders and Indigenous groups on these potential updates and has incorporated their feedback as policy options are considered.

An enhanced net metering framework will provide a platform for future innovation in clean, distributed energy and put the province at the forefront of renewable energy integration in Canada.

I'll ask Deputy Minister Serge Imbrogno, to provide some additional information about this important work.

DM response

Thank you Minister.

Net metering is a billing arrangement that allows customers to generate renewable energy onsite for their own use, and to receive bill credits for extra electricity that they send to the grid.

Under a net metering arrangement, a customer, such as a homeowner or business, can generate electricity from a renewable source while still drawing electricity from the local distribution grid when needed.

On July 1, 2017 amendments to the Net Metering regulation came into force. The changes to the net metering regulation – including, for example, removing the 500 kW size limit for projects and allowing for energy storage equipment to be paired with the renewable generation technology – are significantly broadening the opportunities

available to Ontario electricity consumers to generate their own electricity from renewable sources, such as solar, wind, biomass and hydro.

By facilitating the uptake of renewable energy to offset electricity demand, net metering also supports initiatives under the Government's 2016-2020 Climate Change Action Plan, such as enabling households, institutions and businesses, to move to net zero energy homes and buildings.

And since net metering generation capacity is sited at or close to load, over time it can help reduce peak demand and the need to invest in additional generation capacity or certain grid infrastructure.

Beginning in early 2017 the Ministry initiated a series of engagement activities on different approaches to further enhancing net metering. Two themes that emerged were Third Party Ownership of net metering facilities and Virtual Net Metering.

Third party ownership would improve the ability of companies to provide renewable energy products and services to homeowners, communities or businesses that wish to net meter.

Virtual net metering would allow customers who may not be able to install their own on-site renewable energy systems to participate in renewable energy projects located off-site, for example, apartment or condo residents.

The Ministry has been examining these potential net metering enhancements while also keeping in mind potential impacts and objectives, such as ensuring value to the system and avoiding cost-shifting within the rate base.

We look forward to sharing the Province's next steps and policy direction on net metering in the upcoming Long-Term Energy Plan.

I'll now ask ADM Kaili Sermat-Harding, to outline in more detail the work we have done to improve net metering and the work that is ongoing that would further exnd net metering opportunities.

ADM response

Thank you Deputy, I am pleased to have the opportunity to discuss how we continue to look for opportunities to enhance the net metering framework to improve customer access to renewable energy and enable innovative net metering business models.

Net metering is enabled through regulation (O. Reg. 541/05: Net Metering), which requires electricity distributors to offer net metering to their customers upon request. The Net Metering Regulation has been in place since 2005.

Ontario electricity consumers can participate in net metering by applying to their Local Distribution Company (LDC) to connect solar panels, or other renewable generation, to their home, business or community building to offset their electricity use and be eligible to be billed on a net-metered basis.

Ontario's 2013 LTEP committed the Ministry to "examine the potential for microFIT to transition from a generation purchasing program to a net metering program" and recognized the opportunity to expand and enhance the existing net metering framework.

Further direction on the transition of the microFIT program to net metering was outlined in the Minister of Energy's 2016 Mandate Letter, which provided that the FIT and microFIT standard offer programs would wind down, and updating and streamlining the net metering framework could reduce load on the electricity system and enable innovative technologies and customer-utility relationships.

In July 2016, after analysis and consideration of stakeholder feedback, Ministry staff presented a phased approach to updating the net metering framework for government consideration:

- The Part 1 Updates were to include near-term regulatory updates under existing regulatory authority, and;
- Part 2 Updates would involve additional potential updates to the net metering framework that would require legislative as well as regulatory amendments to implement.

Part 1 Updates

On August 19, 2016, the Ministry posted proposed amendments to the Net Metering regulation on the Environmental and Regulatory Registries for public comment.

On February 8, 2017, the approved Part 1 amendments were filed and posted on e-laws. The amendments came into force on July 1, 2017 and included:

- Removal of the 500 kilowatt (kW) project capacity size limit to allow for any sized renewable energy generation system, subject to the system being used primarily for the generator's own use;

- Allowing for the use of energy storage and its recognition for the purposes of net metering;
- Clarification that the valuation of bill credits from exported generation will remain consistent with the rate the customer is charged for electricity consumed;
- Clarification of the carryover period for bill credits at a consecutive 12 month period; and
- Allowing participants with existing net metering agreements to choose to opt into the updated terms, or to maintain their existing agreements.

The August 2016 Environmental and Regulatory posting also communicated several non-regulatory actions to be taken by the Ministry and the OEB.

Ministry actions included:

- Undertaking a cost-benefit analysis to determine whether investments in Ontario's Meter Data Management and Repository should be made to enable time-of-use (TOU) billing;
- Improving the availability of net metering program information; and
- Undertaking a cost-benefit evaluation of the program every three years, if required, coinciding with the Long-Term Energy Plan cycle.

OEB actions included:

- Developing a standardized net metering application and agreement, with consideration for streamlining processes;
- Collecting net metering information from electricity distributors at more frequent intervals to monitor implementation of the initiative; and
- Improving the availability of net metering program information.

The Ministry has taken steps to meet the non-regulatory commitments in the Environmental and Regulatory Registries posting, including:

- In June, 2017 the Ministry initiated engagement with LDCs and the IESO on a cost-benefit analysis for implementing TOU billing, and;

The Ministry has made more information on net metering available on its website and will continue to engage the OEB on improving net metering information available to LDCs and the public.

The OEB is undertaking the following steps to meet its commitments:

- On May 25, 2017, the OEB issued a Notice of Amendment to the Distribution System Code (DSC) to ensure requirements in the Code for net metering are consistent with the amended net metering regulation.

The OEB is also conducting their own Net Metering Consultations with LDCs and has formed a Net Metering Working Group. The consultations are intended to inform approaches to:

- Improving the availability of information on net metering;
- Improving process efficiency by ‘standardizing’ net metering applications and agreements;
- Enhancing how net metering activity is tracked via the OEB’s Reporting and Record-Keeping Requirements (RRR);
- Modifying the DSC in relation to the maximum cumulative generating capacity from net metered generators; and
- Managing and recovering distributor administrative costs related to net metering.

Part 2 Updates

Third-party Ownership (TPO) and Virtual Net Metering (VNM) emerged during stakeholder consultations for Part 1 Updates as two potential areas for further enhancements to Ontario's net metering framework.

- TPO arrangements involve third parties owning and operating net-metered renewable generation systems located at electricity customer sites and selling the power generated to the customer. This could provide a property owner with an opportunity to participate in a net metering project without incurring the upfront capital cost of installing the system or the obligation to maintain the system.
- VNM involves net metering of generation that is not located at the customer site and selling power "virtually" to one or more participants, who receive a credit on their electricity bills for a power the system exports to the grid. VNM projects can enable larger scale projects with participation of many customers. VNM could expand participation in net metering to include condos, apartments, co-ops, and other shared generation arrangements, thereby providing greater consumer access to renewable energy.

In early 2017, the Ministry held specific stakeholder consultations on TPO and VNM, including a public webinar, stakeholder questionnaire, targeted meetings with stakeholders and Indigenous groups and continued engagement with our Advisory Working Group, we received input.

Stakeholder Engagement

Outcomes of the Ministry's stakeholder and Indigenous engagement have informed policy options.

On Third-Party Ownership (TPO) we heard that:

- The renewable energy industry supports TPO, citing it as important to continued activity in Ontario;
- The business models, target markets and project configurations the sector is contemplating would largely be enabled by eligibility of TPO in Ontario's net metering framework, leading to new business opportunities;

- LDCs, and LDC affiliates, support TPO, subject to appropriate consumer protection measures and clearly defined relationships between LDCs, customers and TPOs.

On Virtual Net Metering (VNM) we heard that:

- There was support from municipalities for a VNM framework that included municipal and institutional buildings.
- LDCs were supportive of VNM, depending on scoping and implementation but expressed some concerns about billing and administrative challenges to accommodate complex VNM projects;
- The renewable energy sector supports VNM as it could enable large projects (up to 10MW) that could be marketed as community net metering to large numbers of customers, and;
- Flexibility for VNM demonstration projects was suggested by some LDCs and industry proponents as an alternative to implementing a regulatory requirement for VNM;

The Ministry continues to engage with the OEB on implementation considerations and consumer protection.

Time of Use (TOU) Compensation for Net-Metered Customers

ENERGY is considering the costs and benefits of enabling TOU settlement for net-metered customers in Ontario. Net-metered customers are currently settled using tiered rates due to limitations with the province's Meter Data Management and Repository (MDM/R).

ENERGY has issued a survey to all LDCs to collect data on the costs and benefits of implementing TOU settlement and is also currently engaged with the IESO Smart Metering Entity (SME) to determine the costs of upgrades to the MDMR. The survey period has now closed and 27 responses were received.

We are aiming to complete our analysis later this year.

Conclusion

The extent of the work the Ministry is undertaking demonstrates a measured approach to enhancing the Province's net metering framework and a commitment to evidence-

based policy that considers all potential benefits and cost impacts to electricity distributors, ratepayers, and business.

It also demonstrates the level of interest in these changes from the sector, customers and LDCs alike. As customer needs and utility business models evolve, net metering will play an important role in the way we consume electricity and in the way it is supplied. Ontario is taking a leadership role in developing the policies that balance the need for clean, reliable and affordable energy now and in the future.

As the Deputy has mentioned, the upcoming LTEP scheduled to be released this fall will provide detail on the additional changes to the province's net metering framework that are being proposed at this time.

Energy Storage

Preamble: The action your Ministry has taken in eliminating coal and supporting renewable generation has been remarkable. But I have also heard that many of our renewable generation sources, such as solar and wind, are intermittent generation sources. This means that they are not always available to generate electricity. Wind Turbines for instance, generate mostly at night, while solar panels generate during the day.

But electricity storage technology can help with this. I've heard from several constituents about electricity storage solutions, such as pumped storage and batteries, and how we could harness tem to increase reliability.

Q11: Could you please tell us whether the government is moving forward with Electricity Storage solutions and/or ideas?

<u>Minister response</u>

Energy storage technologies have the potential to revolutionize the electricity system, increasing its efficiency, lowering costs and increasing reliability for the consumer.

The IESO has completed procurement of 50MW of energy storage projects that will demonstrate the ability of energy storage to provide ancillary services to support the electricity system. The first of these projects should come into service later this year.

The IESO has published a report on the opportunities for energy storage to provide services to the Ontario electricity system. The Ministry has commissioned a further report on the opportunities for energy storage within the distribution networks. From

these reports, we learned that there are significant opportunities for energy storage to provide services to Ontario's grid in the coming decades.

Our efforts have led us to recognize that barriers remain to gain full value from energy storage and allow it to compete fairly with other technologies. Accordingly, we will move to amend government regulations to address charges that inhibit the ability of energy storage to compete fairly with other technologies, including how these facilties are charged Global Adjustment. This is just one way we continue to apply the lessons from our studies and our 50MW procurement to support energy storage in a prudent way.

DM response

Electricity production must be matched to consumption at all times, and flexible sources of generation are dispatched by the system operator to maintain this balance.

Storage changes this dynamic for the electricity sector. We're all aware of energy storage in more conventional forms – fuels like coal and gasoline – and even hydroelectric storage through reservoirs and pumped storage facilities that store water for later use.

However, old technologies like batteries are changing, and new technologies like flywheels and compressed air storage are now being tested to better understand how the work on the system.

Ontario is one of these leaders in energy storage. What works in one jurisdiction may not work in another, so in order to discover how energy storage could benefit Ontario's electricity system, the province has moved forward on several different initiatives to build this knowledge.

These steps – a targeted energy storage procurement, independent studies, innovation funding – show a prudent and balanced approach to building our knowledge of how storage can work on Ontario's grid. These learnings will instruct the path forward for energy storage in Ontario.

ADM response

I would like to step back a bit and provide some more details. Energy storage is a promising technology that has a number of different applications for Ontario's electricity system:

- It can be used to help balance electricity supply and demand on a second-by-second basis;
- It can balance the intermittency inherent in solar and wind generation, increasing the value of our renewable assets to the system;
- It can help improve system reliability;
- If appropriately located, it can defer the need to replace system assets; and,
- It can provide other technical services, such as voltage control.

In the last Long-Term Energy Plan, the government committed to including storage technologies in our procurement process, starting with 50 MW of storage.

The Independent Electricity System Operator (IESO) completed the 50 MW procurement over two phases.

In Phase 1, 33.5MW of storage was procured from 5 providers with 12 different projects. Four different types of technologies were represented in this phase: flywheel, hydrogen, thermal, and battery storage.

These technologies are expected to come online by the end of the year and provide regulation and voltage control for the IESO grid.

In Phase 2, 16.75 MW of storage was procured from 4 providers with to 9 different projects.

Three different types of technologies were represented in this phase: flow batteries, solid batteries, and compressed air energy storage.

The purpose of this second stage is to provide long-term capacity services to Ontario's grid. These projects are expected to come online in late 2018.

Ontario's procurement is unique, because of its quick implementation and its competitive framework.

This procurement was based on a real commercial process, similar to those applied to contracting for energy service for the Ontario market, with concrete commercial terms of operation and performance requirements.

Consider just four types of technology:

- An example of a Flywheel project is one in Harriston, where the company NRStor is using Temporal Power's flywheel system to provide regulation services to the Ontario grid. This is the first first grid-connected commercial flywheel facility in Canada, and has now led to Temporal Power's first export success to the island of Aruba.
- Batteries: Thanks to eCamion and Toronto Hydro, we have the first energy storage system installed directly into an urban community, at the Roding Arena and Community Centre in North York. A system like this one, which can power a community centre, a light industrial complex or small residential street, can lessen the strain on the system at times when we're experiencing peak demand.
- Underwater compressed air: This utility-scale solution promises to hold power for weeks without losing capacity. Another Ontario company, HydroStor, is leading the way on this one, collaborating with Toronto Hydro on the world’s first underwater compressed air storage project, located near the Toronto Islands.
- Pumped storage: Ontario Power Generation's Adam Beck facility is the largest and most flexible energy storage facility in Canada. The reservoir will hold 20 million cubic metres of water, and can do the work of 600 MW of fossil fuel generation for up to eight hours. With its recent refirbishment, we can look forward to another 50 years of service from this facility.

The Ministry also committed in the Long-Term Energy Plan to study the value of energy storage and its many applications.

In March of this year, the IESO completed a study on the benefits of storage to the bulk system.

The IESO report found that Energy storage technologies can be used to provide some of the services needed to reliably operate the power system.

Energy storage could also help improve the utilization of existing transmission and distribution assets by deferring some costs associated with their upgrades or refurbishments, as well as improve the quality of electricity supply in certain areas of the system by controlling local voltages.

That said, energy storage needs to be considered as complimentary to our current assets that provide services to the grid. Its also important to note that location and energy storage technology types are important considerations in understanding their value for a particular service to our bulk system.

The Ministry is has recently completed a study to understand the potential value of energy storage at the distribution level, which we will soon release.

This report found that beyond grid services, energy storage can be effective in helping large energy customers to reduce their electricity bills.

Both of these studies highlight that while the cost of energy storage devices are going down, they remain expensive. Further, they can provide a range of different benefits, but realizing those benefits depends a great deal on how the electricity system is structured, operated, and regulated.

The government is also committed to address barriers that limit the ability of energy storage technologies to compete in Ontario's electricity market.

For example, the OEB has created a new asset class for storage, while recent changes to Ontario's net metering framework now explicitly permit energy storage coupled with renewable energy to participate in the program.

There are other barriers that the Ministry continue to investigate. For example, our study on energy storage on distribution networks found that the way in which Global Adjustment charges are applied to energy storage is the single biggest regulatory barrier to the use of energy storage at low voltages, and that addressing the treatment of Global Adjustment for energy storage would substantially improve its competitiveness.

The Global Adjustment is just one barrier that the Ministry plans to address in the coming weeks. Some energy storage applications may be charged Global Adjustment on the energy they take from the grid, but are not reimbursed for the energy they return. Meanwhile, the end-customer who consumes the energy released by the storage facility pays Global Adjustment as well – meaning that we are collecting the fee twice. This reduces the competiveness of energy storage, and fails to recongize the value it provides to the grid by releasing energy during times of peak demand.

The Ministry plans to move ahead to amend the regulation that governs the Global Adjustment to address this issue, and ensure that energy storage can compete on a level playing field with other technologies.

This is just one of the barriers that energy storage faces in Ontario. Ministry and agency staff will continue to work to find a clear path forward on these issues.

The Ministry is also encouraging storage technology through our Smart Grid Fund. One of the key elements of the Smart Grid Fund is to focus support on demonstrating technologies that have commercial applications domestically and abroad.

Several of the Ministry's Smart Grid Fund projects include energy storage. Here are just a few:

eCamion is developing three storage in Toronto, Sudbury, and Ottawa. Each of these projects is unique and will help eCamion to demonstrate the value of storage under different applications. In November 2016, the Minister opened the Sudbury site. This technology uses three energy sources: solar panels, a battery bank to store the power, and electricity from the Greater Sudbury Hydro's local distribution grid. This project will help Science North – Canada's second-largest science centre – reduce its dependence on the electricity grid and gain greater influence over their consumption.

Ryerson's Centre for Urban Energy is working with Toronto Hydro to test a world-first, pole-mounted storage device. Since it is mounted on a pole, this device has no footprint. The unit intellegently charges during off-peak times, and provides electricity during peak hours to support a nearby transformer.

Other projects include Panasonic's efforts to include a battery into a larger microgrid at University of Ontario Institute of Technology to support reliability and resiliency on campus. Renewable Energy Systems is developing an energy storage system to support a local distribution company's substation. Upon completion, this project will not only improve the quality of supply for those customers connected to the substation. It will allow the LDC to defer investment that would otherwise be necessary to upgrade the substation.

These initiatives will provide a much better understanding of the value of energy storage on Ontario's electricity systems, information that is critical to determine the path forward for this technology in the province.

As you know, the Ministry will soon release the next Long-Term Energy Plan. It will build on our learnings from our prudent approach to energy storage. Like other non-wires alteratives, there are barriers that prevent Ontario's distribution companies from investing in energy storage in ways that make sense for the system and for ratepayers. As part of our LTEP process, we will work with our agencies to address these barriers

and create create the right environment for utilities to modernize their grids. These efforts should create new opportunities to capture the full value of energy storage.

Climate Change Action Plan (CCAP)

Preamble: With the unusually hot weather this past September, I think we can all agree that we're feeling the effects of climate change. In June 2016, the government released its first five-year Climate Change Action Plan (CCAP). Ontario's Climate Change Action Plan will provide people and businesses with tools and incentives to accelerate the use of clean technology that exists today. Through this plan, the province is continuing to reduce greenhouse gas emissions to fight climate change.

Building on Ontario's climate change legislation, the plan ensures that proceeds from the province's recently finalized cap and trade program are invested in a transparent and accountable way back into green projects that will help households and businesses reduce greenhouse gas pollution and save on their energy costs.

Q12: How is the electricity sector contributing to the province's battle against climate change?

Minister Response

Ontario has been taking strong climate-positive actions for years, such as successfully eliminating coal as a source of electricity generation and developing a long-term energy plan that focuses on a safe, clean, reliable and affordable energy future.

The Ministry of Energy is continuing to work closely with the Ministry of Environment and Climate Change (MOECC) and its agencies to develop and implement a variety of initiatives outlined in Ontario's Climate Change Action Plan (CCAP) and have taken into consideration Ontario's greenhouse gas (GHG) emissions reduction targets in the development of the 2017 Long-term Energy Plan (LTEP).

I'd ask that my Deputy Minister Serge Imbrogno provide further details on the electricity sector's contribution to Ontario's fight against climate change.

Deputy Minister Response

Ontario has taken significant action to reduce greenhouse gas (GHG) emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation.

The elimination of coal-fired generation represents a 30 megatonne (Mt) reduction in GHG emissions since 2003. In 2016, 90 per cent of the grid-connected power generated in Ontario came from clean sources of energy such as nuclear, water and other renewables. As a result of these efforts, Ontario's electricity system is in a strong position as the province transitions to a low-carbon economy.

I'd ask that Assistant Deputy Minister Steen Hume provide further details on how Ontario's electricity sector is responding to the challenge of climate change.

ADM Response

By way of background, in April 2015, Premier Wynne announced that Ontario would be putting a limit on greenhouse gas (GHG) emission through the implementation of a cap and trade program, which is a flexible, market-based program with targets (caps) that get more stringent over time. It should be noted that Ontario's caps are set at a broader economy-wide level rather than by sector.

Ontario has recent announced that it has to joined the cap and trade program that Quebec and California have implemented and which was developed under the Western Climate Initiative (WCI).

Ontario's cap and trade program will support implementation of the Climate Change Action Plan (CCAP) and help meet it's our greenhouse gas (GHG) emission reduction targets of:

- 15% below 1990 levels by 2020;

- 37% below 1990 levels by 2030; and

- 80% below 1990 levels by 2050.

On January 1, 2017, Ontario's cap and trade program took effect. So far, Ontario has successfully administered its first three quarterly cap and trade auctions in March, June, and September 2017. All current (2017) allowances that were offered at the auctions were sold (along with a portion of the offered future vintage allowances). Total proceeds for the province were approximately $1.5 billion.

By law, all proceeds from cap and trade will be invested into projects that support greenhouse gas (GHG) reductions. This will:

- Create good jobs in clean tech and construction;
- Generate opportunities for investment in next generation clean technologies; and

- Help Ontario decarbonize by shifting away from fossil fuels.

Decarbonisation of Ontario Electricity System

We respect to the decarbonisation of Ontario electricity system. In 2003, when Ontario committed to the phase-out of coal, coal-fired generation provided 25 per cent of Ontario's electricity and represented the largest single source of greenhouse gas (GHG) emissions in Ontario. A 2005 independent study estimated the financial and environmental impacts of coal-fired electricity had an annual cost of $4.4 billion.

Phasing-out coal-fired electricity generation represented the single largest climate change initiative in North America. In April 2014, Ontario burned its last piece of coal for electricity generation.

The elimination of coal-fired generation has led to a 30 Mt reduction in greenhouse gas (GHG) emissions, the equivalent of taking up to 7 million cars off the road.

Ontario was the first jurisdiction in North America with a significant reliance on coal-fired electricity to eliminate it as a source of electricity production. The phase-out has also helped in meeting Ontario's greenhouse gas (GHG) emission reduction targets.

Ontario's Supply Mix

In addition, between 2005 and 2015, the share of installed renewable energy capacity in Ontario's electricity supply mix has grown from 26% to 40%. Ontario is now Canada's leading province for both installed wind energy capacity and solar photovoltaic capacity.

Currently, approximately 7,500 MW of non-hydro renewable generation (i.e., wind, solar and bioenergy) is connected to both the transmission and distribution networks in Ontario. In 2016, non-hydro renewables produced approximately 10.25 TWh of energy. By the end of 2016, there was more than 3,100 MW of embedded generation in commercial operation within local distribution systems.

According to the Independent Electricity System Operator's (IESO) 2016 Ontario Planning Outlook, greenhouse gas (GHG) emissions are expected to rise slightly following the retirement of the Pickering generation station in 2014, but will remain well below historical levels and stay relatively flat through to 2035.

Cap and trade is designed to limit GHG emissions and is a cornerstone in the province's measures to address climate change. All emissions from electricity generation are subject to a carbon price through the cost of fuel. Natural gas distributors purchase allowances to cover emissions of consumers that are not directly covered under cap and trade, including most natural gas-fired electricity generators. Natural gas-fired

electricity generators are expected to pass on the cost of carbon through increased offers into the wholesale electricity market. As a regulated entity, costs incurred by gas distributors to comply with the cap and trade program would be passed on to natural gas consumers once approved by the Ontario Energy Board (OEB).

Non-emitting electricity generation, such as wind and solar power, is not subject to a carbon price and therefore will not impact the price of electricity.

The addition of a carbon price as part of Ontario's cap and trade program to emitting electricity generators will also reduce the amount of electricity exported from natural gas-fired generators, further reducing Ontario GHG emissions.

Climate Change Action Plan

The Ministry of Energy is working closely with Ministry of Environment and Climate Change (MOECC), the Independent Electricity System Operator (IESO), the Ontario Energy Board (OEB) and other key energy sector stakeholders to implement a variety of Climate Change Action Plan actions.

The Ministry of Energy is currently supporting such Climate Change Action Plan (CCAP) items, such as:

- Energy efficiency and clean energy projects for homes, businesses and industry;
- Electrification of transportation;
- Programs to support renewable micro-grids and alternative energy projects to reduce diesel in remote First Nations; and
- Municipal programs, including community energy planning.

In closing, the Ministry of Energy has taken into consideration Ontario's greenhouse gas

(GHG) emissions reduction targets in the development of its upcoming Long-term Energy Plan (LTEP) and will continue to support the implementation of Ontario's Climate Change Action Plan (CCAP)

Nuclear Refurbishment

Preamble: Last year, your Ministry announced that it would go ahead with nuclear refurbishment projects at both the Darlington and Bruce generating stations, and continued operations at the Pickering generating station to 2024.

I've heard some concern in my riding from constituents who are questioning the need to extend the life of these nuclear facilities. On the other hand, I've heard of many benefits of the nuclear sector, including environmental and health.

Q13: Could you please provide the rationale behind the Government's decision to proceed with nuclear refurbishment? How is nuclear energy helping Ontario meet its climate change targets?

Minister Response

Our priority is to ensure that Ontarians have access to a reliable, affordable and clean supply of power where and when they need it.

To date, Ontario has taken significant action to reduce emissions from the electricity sector through the elimination of coal-fired electricity generation and associated investments in emissions-free generation, including the refurbishment and restart of 2 Bruce nuclear units.

Phasing-out coal-fired electricity generation was the single largest climate change initiative in North America and the equivalent of taking up to 7 million cars off the road.

Altogether, about 90 per cent of the power generated in Ontario during 2016 came from clean sources of energy such as water, nuclear, wind, solar, and bioenergy.

Our government is committed to nuclear power and is making important investments in nuclear generation. Nuclear power is the backbone of Ontario's electricity system.

Nuclear generation is reliable, cost-effective, GHG-free and currently provides about 60% of Ontario's energy needs.

Nuclear power plants are able to operate reliably and continuously, making them ideally suited to meet around-the-clock "baseload" energy needs (i.e., the minimum demand that is always present in the system).

In 2016, all 3 of Ontario's nuclear plants – Darlington, Bruce and Pickering – received "Satisfactory" or "Fully Satisfactory" ratings from the Canadian Nuclear Safety Commission (CNSC). In fact, Darlington has received the "Fully Satisfactory" rating for the eighth year in a row, the strongest continuous performance by any Canadian nuclear power plant.

Nuclear doesn't only power Ontario's economy, it drives it too. The nuclear industry supports tens of thousands of jobs and billions of dollars in economic activity annually.

As laid out in 2013 LTEP, Ontario is moving forward with plans to refurbish 10 nuclear units at Darlington (4 units) and Bruce (6 units) between 2016 and 2033.

The upgrade of Ontario's nuclear fleet will ensure we have safe, reliable, emissions-free energy where and when we need it and contribute to job creation and economic growth.

Furthermore, Ontario's nuclear reactors are vital for the production of medical isotopes that can diagnose and treat life-threatening diseases. These isotopes can also sterilize

medical equipment such as hospital gowns, gloves, masks, implantable devices and syringes, as well as some food products.

Our decision to refurbish our nuclear fleet will help secure the supply of these critically important, life-saving medical isotopes over the long-term.

Deputy Imbrogno will now speak in more detail about the merits of nuclear refurbishment.

Deputy Minister Response

Ontario has been safely operating nuclear power plants for over 40 years starting with the launch of Canada's first full-scale nuclear reactor, Douglas Point, back in 1968.

There are currently 18 operational reactor units in Ontario, spread across 3 sites (Darlington, Pickering and Bruce), for a combined capacity of about 13,000 MW. Another 2 units at Pickering have been shut down and undergoing decommissioning.

Ontario's nuclear reactors are designed to provide electricity generation for approximately 25 – 30 years. Refurbishment and replacement of key reactor and station components is necessary to allow for continued operation for approximately 30 additional years.

Nuclear refurbishment received strong, province-wide support during the 2013 Long-Term Energy Plan (2013 LTEP) consultation process.

The merits of proceeding with nuclear refurbishment are clear.

Refurbished nuclear is expected to be the most cost-effective and emissions-free generation available to Ontario for meeting its round-the-clock power requirements.

Existing nuclear generating stations are located in supportive communities and have access to high-voltage transmission.

The refurbishments at Bruce and Darlington will support Ontario's globally recognized nuclear supply chain, with more than 180 companies and over 60,000 jobs, including a highly-skilled workforce in plant operation and support, nuclear refurbishment and manufacturing supply chain.

Ontario's commitment to refurbish its nuclear fleet will also create a strong foundation for Ontario's nuclear suppliers to export their products and services to a global nuclear industry.

I'd ask Steen Hume, Assistant Deputy Minister of the Energy Supply Policy, to discuss in more detail the specific benefits and opportunities of the Darlington and Bruce refurbishments.

ADM Response

On December 3, 2015, the government announced that Ontario has updated its contract with Bruce Power and will proceed with the refurbishment of six nuclear units at the Tiverton-based nuclear generation station. The first Bruce refurbishment is scheduled for 2020.

Then, on January 11, 2016, the government announced its decision for OPG to proceed with the refurbishment of four units at Darlington, securing 3,500 MW of power. On October 15, 2016, OPG commenced the first unit refurbishment (i.e., Unit 2 refurbishment).

Together with the 2 Bruce units that were refurbished in 2012, these refurbishments will secure over 9,800 MW of affordable, reliable and GHG-free baseload generation capacity, and support GHG-reduction targets set by Ontario's Climate Change Action Plan.

The updated Bruce agreement secures 6,300 MW of emissions-free, baseload generating capacity from the Bruce site over the long-term. The updated agreement has achieved $1.7 billion in savings for electricity customers when compared to the forecast in the 2013 LTEP. This means a reduction in forecast household electricity bills by about $66 each year over the next decade.

Bruce Power is expected to invest approximately $13 billion of its own funds and will take full risk of cost overruns on refurbishments of the six nuclear units

The Bruce site is estimated to maintain 22,000 direct and indirect jobs annually, with $4 billion in annual Ontario economic benefits through spending on operational equipment, supplies, materials and labour income.

During the Bruce refurbishments, the Bruce site will provide an additional estimated 5,000 direct and indirect jobs annually, with $2.3 billion in annual economic benefits.

For Darlington refurbishments, OPG's budget for the project is $12.8 billion, about $1.2 billion less than originally projected by OPG, and all four units are scheduled for completion by 2026.

The refurbishment of Darlington, now underway, is critical to Ontario's energy future. Darlington refurbishment will boost economic activity across Ontario, create jobs, and secure 3,500 MW of affordable, reliable and emission-free power for 30-plus years.

The Darlington refurbishment and continued operation up to 2055 will contribute $90 billion to Ontario's GDP and increase employment by an average of 14,200 jobs annually, including over 2,600 jobs onsite at Darlington. Also, a report by an independent third party highlighted that Darlington refurbishment will help reduce Ontario's GHG emissions to the equivalent of taking two million cars off the road each year.

The average cost of power from Darlington nuclear units post-refurbishment is estimated to range between $72/MWh and $81 MWh, or 7 and 8 cents per kilowatt hour in 2015 dollars.

The starting price of the Bruce output under the updated refurbishment contract is $65.73/MWh and estimated to be $77/MWh over the life of the contract in 2015 dollars.

Both Darlington and Bruce prices are within the range assumed in the 2013 LTEP for refurbished nuclear energy and are lower than the average price of electricity generation in Ontario, which in 2015 was $92/MWh.

Pickering, our first commercial nuclear plant facility, will not be refurbished once it reaches the end of its safe operating period. The Government approved a plan for OPG to complete confirmatory work and seek the necessary regulatory approvals from the Ontario Energy Board (OEB) and Canadian Nuclear Safety Commission (CNSC) to enable ongoing operation of the Pickering Generating Station up to 2024.

At that point, all Pickering units would be shut down and decommissioned. Operating Pickering up to 2024 would ensure that the province has a reliable, affordable and emission-free source of "round the clock" power during the Darlington and initial Bruce refurbishments.

As the Minister mentioned, in addition to powering our economy, our nuclear reactors have broader societal benefits, such as production of key medical isotopes.

Medical isotopes are currently produced in a number of Ontario's nuclear power and research reactors, including:

- Ontario nuclear power reactors: Bruce B and Pickering reactors; and

- Ontario Research reactors: National Research Universal (NRU) reactor at the federal Canadian Nuclear Laboratories (Chalk River, Ontario) and McMaster Nuclear Reactor at McMaster University (Hamilton, Ontario).

Cobalt-60 is one of the most prominent medical isotopes produced in Ontario's reactors. Cobalt-60 is primarily used in medical equipment sterilization and cancer treatments.

Ontario's power reactors (i.e., Bruce B and Pickering) currently supply 70 per cent of the world's Cobalt-60, which is used to sterilize medical equipment such as hospital gowns, gloves, masks, implantable devices and syringes. Cobalt-60 has also recently been used to sterilize mosquitoes to stop the spread of mosquito-borne viruses and illnesses such as Zika; and

A special form of Cobalt-60, known as High Specific Activity Cobalt (or HSA Cobalt) accounts for 10 million cancer therapy treatments each year around the world. Until now it has mostly been produced at the NRU.

Ontario's research reactors produce a number of other medical isotopes (e.g., Molybdenum-99, Lutetium-177, Iodine-125) that play a critical role in the diagnosis and treatment of critical diseases.

With NRU slated to be shut down by March 2018 and Pickering by 2024, Ontario's refurbishment program is helping to secure the supply of these critically important medical isotopes over the long-term.

- On November 7, 2016, OPG and Bruce Power signed a memorandum of understanding (MOU) to ensure a continued long-term stable supply of life-saving Cobalt-60. The companies will look for innovative ways to expand Cobalt-60 production to the Darlington and Bruce A facilities;

- On November 8, 2016, Nordion and Bruce Power announced a new long-term supply agreement for Cobalt-60 - including HSA Cobalt - over the life of the updated Bruce refurbishment contract (i.e., until 2064); and

- On August 8, 2017, Bruce Power and Areva signed an MOU to explore the *on-line production* of medical isotopes (i.e., a process that allows insertion and harvesting of isotopes during normal reactor operation as opposed to during maintenance outages). Such a capability would allow the production of shorter-lived medical isotopes (e.g., Molybdenum-99, Lutetium-177 and Iridium-192) which are currently only produced by research reactors such as NRU and McMaster Nuclear Reactor.

Q14: What are the benefits of OPG's plan for ongoing operation of the Pickering station?

Minister Response

In January 2016, the government approved a plan for OPG to complete confirmatory work and seek the necessary regulatory approvals from the Ontario Energy Board (OEB) and Canadian Nuclear Safety Commission (CNSC) to enable ongoing operation of the Pickering Generating Station up to 2024. At that point, all Pickering units would be shut down and decommissioned.

The government approval was based on promising early technical and economic assessments by OPG as well as IESO which indicated the potential for net savings for Ontario's electricity consumers as a result of operating Pickering up to 2024.

Operating Pickering up to 2024 would also ensure that the province has a reliable, affordable and emission-free source of "round the clock" power during the Darlington and initial Bruce refurbishments.

Ongoing operation of Pickering would protect 4,500 jobs across Durham region, avoid 8 million tonnes of greenhouse gas emissions, and save Ontario electricity consumers up to $600 million.

OPG will need to satisfy the CNSC of Pickering's ability to operate safely up to 2024.

CNSC will not allow Pickering to operate to 2024 unless it is satisfied that safety of the public and the environment can be assured during this period.

OPG will seek final government approval to proceed with ongoing Pickering operating up to 2024 after receiving the necessary regulatory approvals.

Deputy Imbrogno will now expand on the role of Pickering in our electricity system.

Deputy Minister Response

Pickering plays an important role in meeting our energy needs.

Pickering Nuclear Generating Station is our first commercial nuclear power plant facility. Pickering nuclear units were put into service between 1971 and 1986. Two of the eight nuclear reactors at Pickering have since been permanently shut down and are currently undergoing decommissioning.

Pickering currently provides 3,094 megawatts of system capacity through its six operating nuclear units and plays a key role in maintaining Ontario's grid reliability.

Pickering supplies approximately 14% of Ontario's electricity, enough to serve a city of approximately 1.5 million.

2013 LTEP assumed that Pickering would operate until 2020 before being shut down. This is based on the CNSC's approval that the key reactor components (i.e., reactor pressure tubes) would be able to safely operate through that period.

Since then, OPG has undertaken technical analysis and assessments on the condition of key equipment and expressed confidence in Pickering's ability to safely operate to 2024.

Steen Hume, Assistant Deputy Minister of the Energy Supply Policy, will provide more detail about the regulatory approvals required and the benefits of ongoing operation of Pickering up to 2024.

ADM Response

Like all nuclear power plants in Canada, the Pickering Nuclear Generating Station is licensed by the CNSC, which regulates the use of nuclear energy and materials to protect health, safety, security and the environment through the Federal government's *Nuclear Safety and Control Act*.

CNSC licensing of nuclear power plants is comprehensive and covers topics such as radiation protection, emergency preparedness, environmental protection and equipment fitness for service.

CNSC continuously monitors all of Ontario's nuclear power plants, including Pickering, and ensures that they operate safely at all times. In 2016, Pickering received the highest safety rating – "Fully Satisfactory" – from the CNSC for the second year in a row.

Pickering's current operating licence expires in August 2018.

On August 28, 2017, OPG submitted its Pickering operating licence renewal application along with supporting documentation to the CNSC for a 10-year period, from

September 1, 2018 to August 31, 2028. The licence renewal application encompasses three phases of operational activities over the proposed licence term:

1. Continued commercial operation until 2024;

2. Stabilization phase (post-shutdown defueling and dewatering); and

3. Early period of a Safe Storage phase.

OPG has undertaken work in three technical assessment areas to support the Pickering licence application:

- Periodic Safety Review (PSR) is being performed to evaluate the extent to which Pickering conforms to modern codes, standards and practices. Potential safety enhancements will then be assessed to identify the alternatives that can be reasonably and practicably implemented to improve safety during the four years of additional operations.

- Fuel channels (key reactor core components) are currently assumed to be the life-limiting component of the Pickering units. Technical work on the fuel channels' fitness-for-service will continue through the Fuel Channel Life Assurance Project and ongoing inspections. The work program consists of analysis and research and development work to assess fuel channel fitness-for-service for the planned operating durations and to develop methods for assuring that each Pickering unit can meet its target service life.

- Component Condition Assessments are being performed for other major components to validate their fitness-for-service to the planned operation dates.

OPG expects to spend an additional $307 million between 2016 and 2020, in order to enable ongoing Pickering operation up to 2024. As a rate-regulated asset, all costs to enable ongoing Pickering operation will be subject to review and approval by the OEB through a public and transparent process to ensure they are prudently incurred.

The estimated cost of the additional power from Pickering between 2020 and 2024 is $65 per megawatt-hour (MWh), lower than the average price of electricity generation in Ontario, which in 2015 was $92 per MWh.

The net savings of up to $600 million to Ontario electricity ratepayers from Pickering operation up to 2024 would be achieved by:

- Reducing the need to construct and operate more expensive replacement natural gas-fired generation, as well as reducing electricity imports, during the Darlington and initial Bruce refurbishments;
- Deferring transmission grid reinforcements in the Greater Toronto Area (GTA) that would be necessary once Pickering shuts down permanently;
- Deferring costs for Pickering station closure (e.g., severance costs for 4,500 employees); and
- Deferring expenditures for Pickering station decommissioning.

In addition to providing savings for ratepayers, reducing our reliance on gas-fired generation by using emission-free Pickering generation would avoid the 8 million tonnes of greenhouse gas emissions up to 2024 as mentioned by the Minister.

Support for First Nations

Preamble: I have also heard that as part of the Fair Hydro Plan, there were measures introduced to help First Nations customers out with the cost of their delivery charges.

Q15: Could you please expand on what this program does, and how it will provide relief for First Nations who live on reserve?

Response

The FNDC provides a credit equal to 100% of the delivery charge for all on-reserve First Nations residential customers served by licensed electricity distributors (LDCs). For those First Nations residential customers served by an LDC that are charged a bundled rate and do not have a delivery charge, we are providing a credit equal to the monthly service charge. The Ontario Energy Board estimates that the First Nations Delivery Credit will provide residential customers an average monthly benefit of $85 (or $1,020 per year).

In total, there are about 21,500 on-reserve First Nations residential customers served by LDCs who may be eligible. The distribution rate relief provided through the First Nations Delivery Credit (FNDC) will offset potential rate increases, if any, approved by the OEB for these customers.

Natural Gas Grant Program

Preamble: We know that when people heat their homes with electricity, their bills can be significantly higher in the winter. That's why access to natural gas is so important. Yet still, I sometimes hear stories from constituents across the province that have a tough time getting connected to natural gas. For some, the cost is a significant factor.

Especially some rural and remote communities have difficulty getting connected.

Q16: Could you please expand on what the government is doing to expand natural gas access to rural and remote communities?

Minister Response

In April 2017, the government launched the new Natural Gas Grant Program to facilitate the expansion of natural gas service into areas of the province that currently do not have access to natural gas.

The Natural Gas Grant Program is a $100 million initiative, part of the province's $31.5 billion *Moving Ontario Forward plan*, and is led by the Ministry of Infrastructure (MOI), with support from the Ministry of Energy and the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA).

The Natural Gas Grant Program will assist communities in gaining access to natural gas and support natural gas expansion projects with economic development potential.

I'd ask that my Deputy Minister Serge Imbrogno to expand on the Natural Gas Grant Program.

Deputy Minister Response

Ontario is expanding access to natural gas for communities that do not currently have service, including those in rural and northern Ontario and First Nations communities. Natural gas is an important heating source in Ontario and can be cheaper than alternative sources such as propane, heating oil and electricity.

Ontario's Natural Gas Grant Program will support natural gas expansion projects in municipalities, First Nations and unincorporated areas. Projects to expand natural gas pipelines as well as liquefied or compressed natural gas infrastructure are eligible.

The application window for the Grant Program closed on July 31, 2017. MOI is currently reviewing all applications for funding.

Natural gas expansion in Ontario is overseen by the Ontario Energy Board (OEB) and managed by private sector natural gas distribution companies.

I will now ask my Assistant Deputy Minister to provide additional details on the Natural Gas Grant Program.

ADM Response

Ensuring affordable sources of energy are available to more rural and northern communities is a key part of Ontario's energy plan. Natural gas access can help stimulate the economy by attracting new industry to Ontario, making commercial transportation more affordable, benefiting Ontario's agricultural producers and providing consumers with more energy choices.

MOI's inter-jurisdictional analysis of the Natural Gas Grant Program shows Ontario in a unique position in terms of the size and scope of provincially administered natural gas expansion programs:

- Alberta, allocates funding to a natural gas umbrella organization, the Federation of Alberta Gas Co-ops, which oversees the expansion of natural gas service to rural communities; and
- In Saskatchewan and Manitoba, provincial energy corporations provide loan programs to promote energy-efficient upgrades, including fuel switching to natural gas.

In April 2017, the government launched the new Natural Gas Grant Program to facilitate. The Natural Gas Grant Program has two separate application streams:

- Expansion Stream: Projects that are primarily aimed at converting residential dwellings to natural gas. A total of $70 million of funding is available for these projects.

- Economic Development Stream: Projects that will assist with connecting business to natural gas and benefit agri-businesses, rural Ontario, First Nations communities or unincorporated areas. For example, projects that will help connect farms, greenhouses, manufacturing facilities, mining operations, etc. A total of $30 million in funding is available to support these projects.

Applications to the Grant Program must be made by the natural gas distributor or supplier and have the written support of the respective municipality, First Nation or unincorporated area. Property owners cannot apply for funding under the Natural Gas Grant Program.

MOI established a review process that utilizes set criteria to determine the projects that will benefit most from access to the grant funds, and prioritizes approvals accordingly. Approvals under the Grant program will also be conditional on the project receiving all necessary approvals from the Ontario Energy Board (OEB).

Consistent with the OEB's efforts to encourage competition, multiple applications to provide service to the same project area by different distributors or suppliers are acceptable under the Natural Gas Grant Program. Where there are competing grant applications for the same community, grant funding will only be provided to the project approved by the OEB.

The application window for the Grant Program closed on July 31, 2017.

Applications and supporting documentation are being assessed by technical reviewers from Infrastructure Ontario, MOI, OMAFRA and ENERGY. The selected projects will then require Ministerial approvals.

Natural Gas Grant Program Guidelines

All projects under the Natural Gas Grant Program must be for new connections or increased volumes of natural gas. Prospective connections to new residential or commercial developments that have yet to be built are excluded.

Prospective connections, such as for the attraction of new business and investments, may be included under the Economic Development Stream with appropriate supporting evidence showing when these connections would occur and how they would benefit the area.

The Natural Gas Grant Program funding may only be used towards:

- Capital projects to build new natural gas pipelines or compressors and other related capital works; and

- Capital projects to build liquefied or compressed natural gas infrastructure, including pipelines, compressors, liquefaction facilities, re-gasification facilities, storage facilities and other related capital works.

However, it should be noted that operational and maintenance costs and the cost of purchasing gas are not eligible for funding under the Natural Gas Grant Program.

Applications will only be considered when Municipalities and First Nations participate in the following manner:

- Make a financial contribution towards project costs. The contribution should be, at minimum, equivalent to the property tax (or other levies in the case of First Nations) that would be recovered on the new infrastructure being built for a period of 10 years. How this contribution will be made (e.g. up front or over time, through municipal loans, etc.) is up to the discretion of the municipality or the First Nation in consultation with the natural gas distributor or supplier. Alternatively, municipalities or First Nations may provide evidence either separately or as part of the application to explain why making such a contribution is not feasible.

- Provide a supporting council or band council resolution. The resolution must, at minimum indicate:

    - The municipality or First Nation is supportive of the project to provide natural gas access to their jurisdiction;

    - The municipality or First Nation are willing to make a financial contribution to the natural gas expansion project should it be approved by the Ontario

Energy Board. The contribution would be, at minimum, equivalent to the property tax that would be recovered on the new natural gas infrastructure being built for a period of 10 years beginning from the time that property taxes first become due; and

- Municipalities and First Nations are expected to estimate the amount of property taxes that would be recovered over ten years for the purposes of completing the application form but are not required to specify this amount as part of the municipal or band council resolution since the actual amounts may vary.

- Finally, for applications under the Economic Development Project Stream only, municipalities and First Nations must provide supporting evidence for economic development benefits that natural gas access will bring to the community and/or region. Municipalities and First Nations must have worked with the natural gas distributor or supplier to include this information in the application form. The natural gas distributor or supplier must enter into a contractual agreement with municipalities and First Nations that were making contributions to the natural gas expansion project.

Evaluation Criteria

There are two separate project streams in order to ensure the Natural Gas Grant Program supports both improved access to natural gas as well as economic development in communities. Each has specific evaluation criteria.

In Expansion Stream, the evaluation criteria include:

- Cost-Effective Access: Projects will be assessed based on the number of new connections that are made possible relative to the amount of grant funding requested; and

- Energy Affordability: Projects will be assessed based on how much the community is currently paying in annual heating costs.

In the Economic Development Stream the evaluation criteria include:

- Economic Development: The expected economic benefits to businesses (e.g., agriculture, forestry, mining, manufacturing etc.) that support rural Ontario, First Nations or unincorporated areas. This could also include benefits to registered farming businesses and/or agri-businesses including grain elevators, feed manufacturing facilities and crop input supply businesses located anywhere in Ontario; and

- Energy Cost Savings: Expected energy cost savings to businesses with greater consideration expected for those projects that accommodate a higher density of connections to the pipeline (e.g., clusters and collaborative ventures such as business parks or corridors).

Additional criteria that both Streams are evaluated against include:

- Project Revenues and Customer Engagement: The extent to which various rate options were considered and whether the proposed rate(s) reflects feedback from the community being served;

- Greenhouse Gas Emissions: The impact the projects will have on reducing greenhouse gas emissions; and

- Partnerships and Innovation: How the projects leverage partnerships and innovative approaches to make the undertakings more economical (i.e., lower project costs or improve project revenues) or provide better outcomes.

- Geography: Additional consideration will be given to projects that are in northern areas of the province or located within First Nations Reserves.

Regulation of Natural Gas Expansion In Ontario

The Ontario Energy Board (OEB) oversees expansion of the natural gas network in the province, which typically includes three elements:

- Municipal Franchise Agreement (MFA) and Certificate for Public Convenience and Necessity: Securing the approval to serve an area of the province;

- Leave-to-Construct Approval: Securing approval to construct facilities that meet certain size and cost criteria; and

- Rate Setting: Securing approval to charge customers for regulated services.

During a nine-day oral hearing from May 5-13, 2016, the OEB heard evidence from 28 interested parties, including customer groups, environmental organizations, municipalities, First Nations, industry associations and utility companies. The OEB also received 24 written comments from interested parties by the July 2016.

In November 2016, the Ontario Energy Board (OEB) introduced new rules for natural gas expansion in the province when it issued its decision on natural gas expansion entitled *Generic Proceeding on Community Natural*

Gas Expansion

Under the new rules, natural gas distributors may implement stand-alone rates or surcharges for expansion projects to new areas to recover costs. Previously, distributors had to charge the same rates to all customers in the same rate class. This limited the ability to expand, particularly into rural and remote areas which face higher expansion costs.

The overall intent of the community expansion proceeding was to develop a regulatory framework to support the expansion of infrastructure necessary to provide natural gas to communities that would otherwise not receive natural gas service.

The OEB's decision will also encourage competition between interested parties for the provision of lower cost natural gas service to new communities. Under the new rules,

the OEB will consider proposals from competing distributors or suppliers to service the same community. In situations where there is competition to serve a new community, the OEB will first evaluate the proponents' leave-to-construct and rate-setting plans.

The Natural Gas Grant Program is complementary to these new rules introduced by the OEB. Under the Grant Program, projects to build new natural gas infrastructure must utilize stand-alone rates or surcharges to recover capital costs to lower the net grant funding required.

Recent OEB Decisions on Natural Gas Expansion

In August 2017, the Ontario Energy Board (OEB) released its decision approving an application by Union Gas Limited seeking approval of a Community Expansion Program to the following unserved areas:

- Kettle and Stoney Point First Nation and Lambton Shores; and
- Milverton, Rostock and Wartburg.

This decision demonstrated the significance of the new regulatory framework announced in the Generic Proceeding decision. Union will use a volumetric-based "System Expansion Surcharge" (SES) applied only to those customers residing in the new expansion area. The expansions do not rely upon additional funding from the Natural Gas Grant Program.

The System Expansion Surcharge (SES) will be community-specific, for a defined period of time not to exceed 40 years towards recovery of the cost of the projects. It will be reviewed by the Ontario Energy Board (OEB) after 10 years from the start of its implementation to ensure that its forecasted costs remain on track to be appropriately recovered within the remaining timelines.

The surcharge rate for all communities will be 23 cents per cubic metre, and the approved SES term will be applied to customers attaching to any future extensions of the pipeline system. The SES will appear as an extra line item on each expansion area customer's monthly bill along with the current gas bill line items.

OEB's August 2017, decision also approved expansion to the Delaware Nation of Moraviantown First Nation conditional on receiving funding from the Natural Gas Grant Program. OEB deferred its decision on expansion to Prince Township pending negotiations between Union and Batchewana First Nation of Ojibways.

Ontario's Natural Gas Grant Program is supporting natural gas expansion projects in municipalities, First Nations and unincorporated areas.

Ontario is expanding access to natural gas for communities that do not currently have service, including those in rural and northern Ontario and First Nations communities. Natural gas is an important heating source in Ontario and can be cheaper than alternative sources such as propane, heating oil and electricity.

SCOPA_QA_Friendly_ENERGY_3.pdf

Ministry of Energy – Proposed Friendly Questions:

1. To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?

   And, why is the Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

DRAFT

FW_ SCOPA Materials for DM.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Armstrong, Hillary (ENERGY)
Subject:	FW: SCOPA Materials for DM
Date:	February 27, 2018 4:16:00 PM
Attachments:	2. AFT SCOPA Numbers At a Glance.docx 3. AFT SCOPA QAs - CRED.DOCX 1. AFT SCOPA BN.DOCX

Hi Michael,

Attached are the SCOPA materials from CRED on the Affordability Fund Trust. Can you run these by the Deputy?

Thanks
Martin

From: Edwards, Matthew (ENERGY)
Sent: February 27, 2018 4:11 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>
Subject: SCOPA Materials for DM

Hi Martin,

Following up on your conversation with Kaili earlier, attached are the materials for SCOPA tomorrow. Please let me know if you have any follow-up.

1) Briefing Note
2) Numbers at a Glance
3) QAs

Thanks,

Matt

2. AFT SCOPA Numbers At a Glance.pdf

AFFORDABILTY FUND

NUMBERS AT A GLANCE for SCOPA

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, **approximately 4,280 applications** had been received.
- Eligible applicants are starting to receive benefits which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent **$1,709,724**, and earned interest on investment of **$98,969,457**.
    - Examples of activities covered under these costs include detailed program design, including stakeholder consultation, and processes established to support the administration of the Fund and
- As of February 23, 2018:
    - **60 (of about 65**) LDCs have indicated an interest in delivering the Affordability Fund program
    - **26** LDCs have signed Implementation Agreements with the Trust.
    - Approximately **36% of the $100M budget** has been allocated.

APPENDIX – INTERNAL DATA

NTD: The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 23-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)	1,186
Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	286
Sent to LDCs or Ready to be Sent to LDCs	2,810
Total Applications Processed	**4,282**

Metrics As of Feb 22, 2018*	**Amount**
Number of Participating LDCs	60
Number of Implementation Agreements Signed	26
Budget Allocations Received	22
Up-Front Allocations	$8 M
Dollars Allocated Overall	$32 M
Percent of $100M Allocated ($89.1M)**	36%

** $89.1M has been earmarked for the electricity distributors. The balance is intended for AFT's central admin and other costs to establish and oversee the Affordability Fund

Metrics:

Number of Participating LDCs: refers to those LDCs who have indicated they are interested to deliver the Affordability Fund program to their customers. The 60 LDCs represent a total base of 5,068,320 residential customers.

Number of Implementation Agreements Signed: The AFT can delegate an electricity distributor to deliver the Affordability Fund program through execution of an Implementation Agreement between the Trust and the distributor.

Percent of $100 M Allocated: This is the total of submitted and approved budget requests. In addition to implementation agreements, the distributors must submit to the AFT a budget request. Once approved distributors can receive an up-front allocation (to cover start-up/admin) and then recover costs on basis of invoicing. Distributors must establish a separate AFT account for all money which is to be received from the Trust. About $32 million of the budget has been allocated, $8 million of which will be provided up-front.

AFT LDC BUDGET ALLOCATION

- The following 22 LDCs have submitted budget allocations; 4 additional LDCs have signed Implementation Agreements but have yet to submit their budget allocations (see below).

Name of LDC	Up-Front	Total Allocation
Alectra Utilities	$3,027,500	$12,110,000
Algoma Power	$143,500	$574,000
Canadian Niagara Power Inc.	$144,500	$578,000
Chapleau Public Utilities Corporation	$61,570	$246,280
Cornwall Street Railway Light and Power	$369,438	$1,477,750
Energy+ Inc.	$464,060	$1,856,234
Entegrus Powerlines Inc.	$158,420	$633,680
Erie Thames Powerlines Corporation	$116,250	$465,000
Espanola Regional Hydro Distribution Corporation	$149,760	$599,040
Greater Sudbury Hydro Inc.	$607,393	$2,429,570
Hearst Power Distribution Company Limited	$63,130	$252,520
Kitchener-Wilmot Hydro Inc.	$310,225	$1,240,900
Midland Power Utility Corporation	$136,815	$547,260
Newmarket- Tay Power Distribution Ltd.	$379,620	$1,503,860
North Bay Hydro Distribution Limited	$305,153	$1,220,610
Northern Ontario Wires Inc.	$248,685	$994,740
Oakville Hydro Electricity Distribution Inc.	$134,312	$537,250
PUC Distribution Inc.	$618,498	$2,473,990
Renfrew Hydro Inc.	$137,625	$550,500
Welland Hydro-Electric System Corp.	$200,484	$801,936
West Coast Huron Energy Inc.	$52,705	$210,820
Westario Power Inc.	$185,125	$740,500
Total	$8,014,768	$32,044,440

The following four LDCs have signed Implementation Agreements and will submit their Budget Allocations in the near future:

- Centre Wellington Hydro;
- Kenora Hydro;
- Rideau St. Lawrence Distribution Inc.; and
- Waterloo North Hydro

AFT 2018 BUDGET Forecast (does not include allocations to LDCs)

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

- The 2018 projection is higher than that of 2017 as it accounts for the full year, includes the Parachute Work Management system, and cost centre charges (anticipated to increase with increased activity).

3. AFT SCOPA QAs - CRED.pdf

AFFORDABILTY FUND

QAs for SCOPA

1. **Why is the Affordability Fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the program?**

    - The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors effectively and expeditiously.

    - With approximately 65 electricity distributors in the province, having the Province enter into agreements with each distributor was not feasible.

    - The Trust structure establishes an independent entity with expertise from the community and electricity distributor sectors. This has enabled the Trust to leverage directly the knowledge and expertise of the sectors best positioned to target customers in need of assistance.
        - The Board of Trustees for the Trust includes representation from two community organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three distributors (Thunder Bay Hydro, Alectra and Hydro One). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

    - Administering the Fund through an independent Trust, as opposed to the IESO or OEB, enables the Fund to focus on its mandate of helping those who are in need, but not eligible for low-income conservation programs.

    - Hydro One has played an important role in facilitating the establishment of the Trust, and continues to play an administrative support role to the Board of Trustees in the implementation of the Affordability Fund.
        - They (Hydro One) are the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.

    - The IESO, which has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of the Home Assistance Program.

- In fact, in August 2017, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. How much control does the Province or Hydro One have over the Trust?

- The Affordability Fund Trust has been established as a non-controlled independent Trust to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements.

- The Trust is undertaking its duties on the basis of principles and guidance in the Transfer Payment Agreement between the Ministry of Energy and the Trust, and the Declaration of Trust, established by the Province.

- Trustees have discretion on how they implement the program.

- The Trust structure leverages the expertise of the electricity and community sectors. The composition of the Board of Trustees represents a geographical cross section of the Province.

- Individual members were recommended by an Advisory Committee, established by the Ministry of Energy. Members include:

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One representatives to ensure that Hydro One does not control voting decisions of the Trust.

  - Hydro One played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and delivery of the Affordability Fund.

- A Ministry of Energy representative sits on the Board as a non-voting Trustee and is the only government representative on the Board.

3. What accountability and reporting structures are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

- The Transfer Payment Agreement (TPA) between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectations of the Trust and the Trustees, including the delegation of program delivery to electricity distributors.

- The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

- The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

4. Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

  - In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:

    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015. We also know that over 58,000 customers were disconnected the following year (2016)

    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which

provides low-income support program.

- In January of 2017, Hydro One submitted a report to the Ministry of Energy titled "Addressing Affordability". The report outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs offered by their local distribution company

- For example, the existing Home Assistance Program (HAP) delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes.
    - HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes.
    - Measures installed though HAP include LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars.
    - Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

- To qualify for HAP participants are required to meet a mandated definition of low-income consumers (derived from Statistics Canada).

    - Not all customers who are in need meet the mandated definition and are therefore not eligible for HAP.

5. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

- The Affordability Fund was established through an independent Trust that was provided with an upfront amount of $100 million. The Trust is administering the Affordability Fund and disbursing funding to electricity distributors.

- Given the scope of the Fund, a firm upfront financial commitment was required before implementation as:
    - An upfront commitment enables the Trust to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow;

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas; and

- The Trust is helping to address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help customers get on a more sustainable path with their energy bills.

6. Explain how payments to the Trust and electricity distributors are made.

- The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, who in turn deliver energy efficiency measures to eligible customers.

- The amount of funding will vary across LDCs. LDCs submit budget allocations to the Affordability Fund based on their assessment of the potential number of eligible applicants, which would include consideration of factors such as the number of customers residing in electrically heated homes.

7. What are the anticipated overhead requirements for the Affordability Fund?

- The Trust is responsible for establishing the program's design, consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province.

- It is expected that the Trust will manage its administrative/overhead expenses in a manner that optimizes the funds available for eligible customers.

8. Were there other potential organizations that could have delivered the program?

- Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered lacking the necessary capacity to design and ensure effective and timely delivery of this type of program.

    - The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the

Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise in conservation and demand management programs and no direct channel or ties to electricity distributors.

- LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs.
    - LDCs and other electricity distributors such as Independent Power Authorities, who are also eligible for the Fund, are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

9. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

- The Affordability Fund is accessible to electricity distributors to deliver energy efficiency measures to Ontarians who are not eligible for the low-income Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The program is delivered in three steps.
    - Step 1 – the homeowner first contacts the Affordability Fund through the website or by phone to determine if their electricity bill is a burden;
    - Step 2 - an Affordability Fund representative will contact the homeowner for basic information such as household income and average electricity bill;
    - Step 3 – homeowner will receive their energy efficiency measures and upgrades.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - energy-saving light bulbs (LEDs);
    - power bars;
    - energy efficient window ACs;
    - refrigerators, freezers, dehumidifiers;
    - low-flow showerheads, hot water blankets;
    - pipe wrap and faucet aerators (in homes with electric water heating); and
    - programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Additional Affordability Fund measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher.

- Cold climate air source heat pumps, which can cost from $7,000 to $13,000, are also an eligible measure under the Fund for homes that are electrically-heated.

- The types of home upgrades and total cost of measures a customer will be able to receive from the Affordability Fund are calculated by the household's level of electricity burden.

- A household's level of energy burden, known as the *Electricity Affordability Burden (EAB)*, measures the strain energy costs place on that household. The EAB is calculated by dividing a household total electricity charges by the net household income.

- Depending on the level of their EAB, a household will qualify for one of three levels of measures:
    - *Level 1:* A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators). LDCs are also expected to conduct targeted outreach to identify potential customers.
    - *Level 2:* Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - *Level 3:* Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: range of $500-$15,000 per customer is confidential and has not been made public)***

10. What is an Electricity Affordability Burden?

- Fund beneficiaries will be members of households whose electricity costs place a strain on the family. This strain is captured in a metric known as the Electricity Affordability Burden (EAB).

- The EAB is calculated by dividing the total electricity charges by the net household income. This total electricity charges include the installment and fees expected of the account holder over the period under consideration. Installment payments, bills, and fees are assessed over the same period as the net household income.

  EAB = (Electricity Bills + Installment Payment + Fees) / Net Household Income

11. What is the eligibility criteria for the program?

- The Affordability Fund is accessible to Ontarians who are not eligible for the low-income Home Assistance Program (HAP) and who are unable to undertake energy efficiency improvements without support.

- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

- The residence must be located in the Province of Ontario and be used exclusively for residential occupancy or be a multi-unit residence, with the Beneficiary being responsible for the direct payment of their electricity usage and costs.

- The level of support available to eligible households under the Affordability Fund program is based on the electricity affordability burden.

12. **Would tenants be eligible?**

- The Affordability Fund is targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills.

- Tenants who pay their electricity bills could be among the eligible customers identified by distributors as needing help.

- Eligible customers will be identified by distributors and could include those in frequent arrears or facing disconnection.

13. How soon will eligible customers be able to start benefiting from the Fund?

- Eligible customers are beginning to receive energy efficiency measures. LDCs are rolling out the Affordability Fund over the coming months. As of February 23, 2018, 26 LDCs have signed implementation agreements with the Affordability Fund; with 22 of the 26 also submitting their budget allocations.

14. How much can a customer who takes advantage of the Fund expect to save?

- Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home.

- Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year.

- In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

15. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

- The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid.

16. Will the program be delivered province-wide?

- Yes, the program is available province-wide.

- The Affordability Fund Trust is accessible to all electricity distributors in Ontario, to provide energy efficiency upgrades to eligible customers.

- Where a distributor cannot or does not wish to provide the program, Hydro One will deliver in the program in the LDC's service territory on behalf of the Trust.

17. How will the Affordability Fund program be marketed?

- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

- Given the targeted nature of the program, a broad province-wide marketing campaign would not be an effective way to spend marketing funds.

- It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers. Eligible customers will be identified by electricity distributors.

18. How will you evaluate the success of the Affordability Fund?

- Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation.

- The Affordability Fund Trust is required to provide the Ministry of Energy with details on a quarterly and annual basis. Information required includes:
    - Amounts disbursed by the AFT to Electricity Distributors, and in aggregate;
    - Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor;
    - Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT; and
    - Electricity Distributor and customer feedback and lessons learned.

19. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

LINKAGE QUESTIONS

20. How does the Affordability Fund augment existing rate mitigation and conservation initiatives?

- Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

- Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

- To help electricity consumers across the province achieve cost savings, the government implemented the Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

21. How will the programs compare with the existing Home Assistance Program?

- The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- The Fund includes additional measures such as block heater timer, solar attic fan, and air source heat pumps. Since some measures may have greater impact in certain areas of the province, e.g. block heater timer, air source heat pump, LDCs have the flexibility to select from a list of available measures that can maximize the energy savings opportunities for their customers.

- Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure while eligibility for the Affordability Fund is based on the electricity affordability burden.

    - The electricity affordability burden is the ratio of the utility ‘asked to pay amount’ divided by the ‘net household income’.
    - Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

- The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from electricity rates.

22. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

  Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.
- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

23. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

- A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure

investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

- On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

24. What happens to unspent funds?

- It is expected that the funds through the Fund will be deployed within two years of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

- The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustees would identify one or more Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

25. Does the Ministry have the ability to claw-back funds?

- The TPA includes claw-back provisions to recover funds not used for the intended purposes.

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AFFORDABILTY FUND

Briefing Note for SCOPA

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which provides oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.

- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.

- The table below outlines the Board of Trustees for the Affordability Fund Trust.

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister) (non-voting)

- Local utilities are rolling out the Affordability Fund over the coming months, and in some parts of Ontario eligible customers have started receiving benefits.

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.

    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

- An interim Advisory Committee was established by the Ministry of Energy to make recommendations to the Original Trustee regarding the appointments of the Board of Trustees. The Committee acted independently to appoint the Board of Trustees. Committee members were selected because they possessed relevant knowledge and experience to identify and evaluate suitable replacement Trustees. Advisory Committee members were:

    - Brian Bentz (CEO, Alecta Utirlities)
    - Bryce Conrad (CEO, Hydro Ottawa)
    - Robert Mace (CEO, Thunder Bay Hydro)
    - Ferio Pugliese (EVP Customer Care & Corporate Affairs, Hydro One)
    - Terry Young (VP Conservation and Corporate Relations, IESO)

- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). ENERGY is also represented on the Board of Trustees as a non-voting member.

How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.
- The levels of support provided through the Affordability Fund are relative to the household's electricity bill and net income.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***
- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

<u>ADMINISTRATION</u>

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- Hydro One has played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

- The TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.
- ENERGY's first report back to TB/MBC through the PRRT process was in October 2017 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.
    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

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From:	Nelson, Dane (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Skoberne, Vivienne (TBS); Ue, Allison (TBS); Clarke-Darshanand, Jamille (MOF); Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	FW: SCOPA Materials
Date:	February 21, 2018 2:14:52 PM
Attachments:	SCOPA Briefing Binder_Feb 21 2018.zip

Hey Martin and Dave,

Please find the latest version of the SCOPA binder attached for your review. Please share it with your deputies and relevant staff. As you know, the materials should be considered draft and subject to change.

Regards,

Dane Nelson, Senior Policy Advisor
Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

SCOPA Briefing Binder_Feb 21 2018.pdf

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 21, 2018

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Tab 9_Auditor General Reports.pdf

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A.pdf

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Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses"	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD

5) Peripheral: OPG Executive Compensation	and the IESO's recent unqualified audit record.	are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	• Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

		issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public	• C4SE study • MOF

		infrastructure, GDP increases by up to $6, on average, in the long term.	
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	• Example of single use of legislated accounting (Public Accounts 15-16)
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the	• CPA professional code of conduct

		normal course of business.	
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

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PLACEHOLDER

DRAFT

Placeholder.pdf

PLACEHOLDER

DRAFT

A.pdf

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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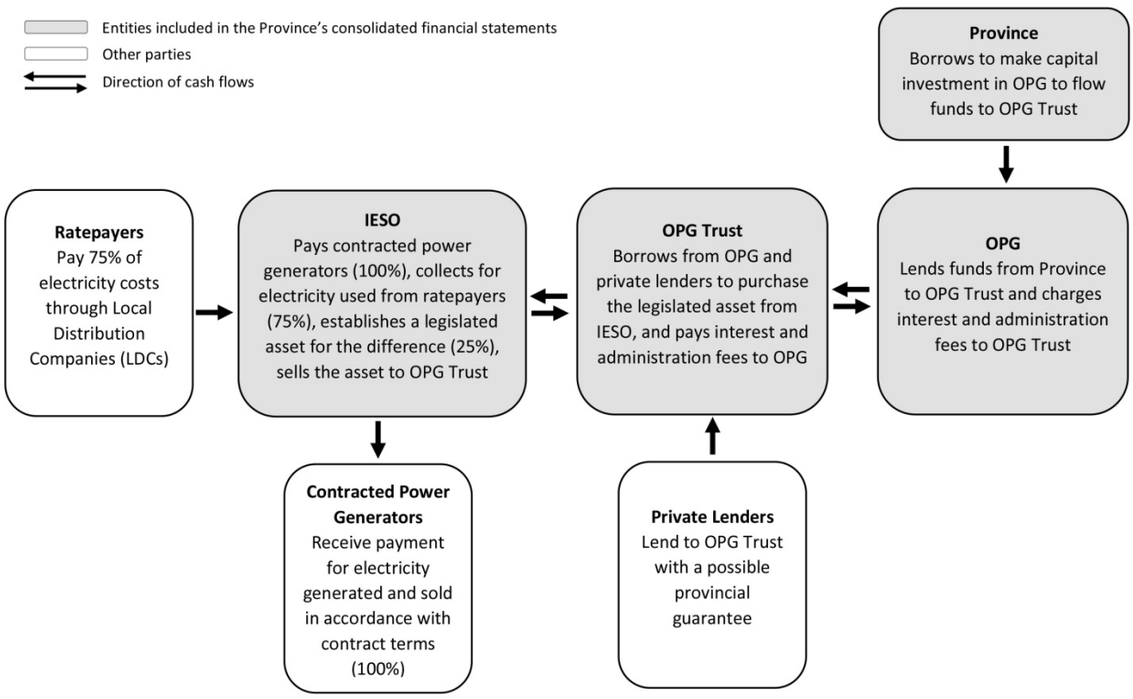
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

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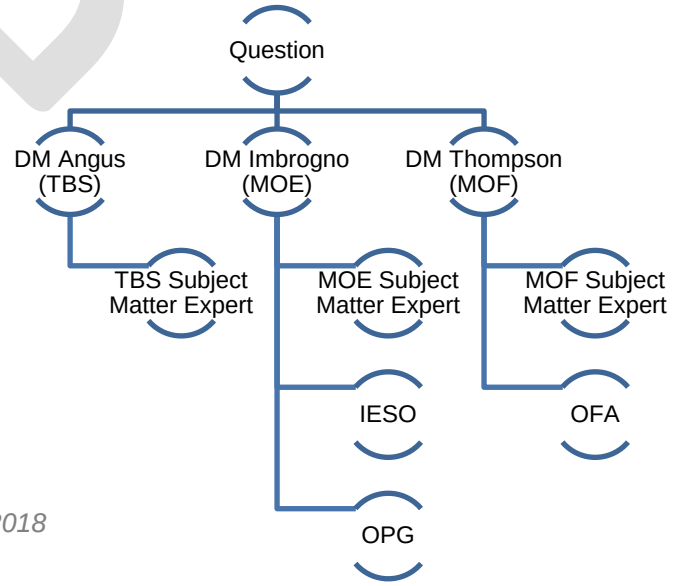
Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

.../2

Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires a great amount of teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.
- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.

Last updated: February 14, 2018
Reviewed by OPCD Feb 14, 2018 – OTB approval pending

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- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- We're committed to proactively working with the Office of the Auditor General to discuss issues, once our professional staff have completed their analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.

- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.

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- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan and Legislated Accounting**.

IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

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Pre-Election Report

- And finally, speaking to the Pre-Election Report – Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances, and shall do so before the deadline established by regulation.
- Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.
- Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.
- As always, we remain committed to working constructively with the Office of the Auditor General.
- *TBC: Placeholders*

If release is unknown:

- The province takes the Auditor General's recommendations seriously.
- The government continues to deliberate on whether and when to release a Pre-Election report.
- All officers of the legislature are being kept informed and engaged constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

If release is known:

- The government has assured us that they will provide the people of Ontario with an overview of the province's fiscal position in advance of a writ of election being issued on May 9, 2018.
- To this end, TBS, in partnership with the Ministry of Finance, is in the process of drafting the Pre-Election Report.

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- This report will present the province's estimated future revenue and expense, and other details of its fiscal planning processes, before the provincial election scheduled for June 7, 2018.
- The report will cover the fiscal year of the upcoming 2018 Budget and the next two years.
- It will provide information on:
    - the macroeconomic forecasts and assumptions that will be used to prepare the fiscal plan for the upcoming 2018 Budget;
    - an estimate of Ontario's revenues and expenses, including estimates of the major components of revenues and expenses that will be set out in the plan;
    - details of the reserve that will be included in the plan; and
    - the ratio of provincial debt to Ontario's gross domestic product, or GDP.
- Deputy Thompson or I would be pleased to take any questions on that.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.
- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.

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- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

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During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with

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PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used

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consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not

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receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
To confirm whether IESO or TBS should answer this question.

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards

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(PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
To confirm whether IESO or TBS should answer this question.

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

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The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 IESO Financial Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

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In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity

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cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

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Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

14. The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

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It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.
I will pass it over to my colleagues at the Ministry of Energy to provide further details.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in

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order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

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A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the province to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

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The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?

As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.

That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?

As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

We will look into this question, and make every effort to get the Committee as much information as we can.

4. When does TBS not provide information through a Freedom of Information request?

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Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key messages & QAs to continue to be reviewed for any Pre-Election Report updates.

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   The province remains committed to working constructively with the Office of the Auditor General.

   Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline

established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

2. Is the government required to issue a pre-Election Report?

Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why has the government waited this long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

We continue to engage all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to

determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

The province remains committed to working constructively with the Office of the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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OPCD to add content re: transparency of the net pension assets and the Fair Hydro Debt.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

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When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

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The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

   There are no plans to establish a panel at this time.

   If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

   The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. **How much did the Treasury Board Secretariat spend on consultants?**

   The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

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- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

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1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

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- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to

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accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

   The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

   The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

   TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports

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on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and were prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Relationship with the Auditor General

4. **What is your relationship with the Auditor General?**

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension

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plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development)

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and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   OPCD to provide response.

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

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4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?

The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

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6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

   A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

   To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

   The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

   As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

   TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

   The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

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TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

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This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

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2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

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Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

As the result of Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180214.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Associate Deputy Minister Karen Hughes in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the government's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

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- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Associate Deputy Minister Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

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What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the government has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Discussion and Analysis section that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the government to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results are restated to provide a relevant comparison of results across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Beyond the annual report, Public Accounts also include the consolidated financial statements.
- These documents compare government revenue from several sources – such as taxes, federal transfers and other non-tax revenues.
- They also include income from government business enterprises, such as the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation and our utility enterprises, OPG and Hydro One.
- Finally, the include fees and donations which are consolidated for reporting purposes from hospitals, colleges and school boards – the Broader Public Sector

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– to government expenses incurred from providing government programs and services.

- The consolidated statements show the actual government income and spending that happened in the fiscal year, compared to what was laid out in the budget for that year.
- This is a quick way to see if the planned spending activities contained in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's Public Accounts so anyone can see at a glance if income or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of government ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of government organizations, business enterprises and other financial statements that are consolidated into the Public Accounts.
- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.

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- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the government to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to vendors in excess of $50,000 per year are included here as well, as another example of expense thresholds.
- This group includes hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across government ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other government entities to share their financial statements with us.
- To that end, we work closely with the Ministry of Finance each year to make sure ministries are sharing information as quickly as it is available.

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- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General includes an audit opinion in the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.
- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the government was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.

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- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

What Guides Public Accounts Accounting Decisions?

- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the government formulates its position on accounting methods.
- As you've heard, our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.
- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the rules that all governments in Canada must follow in their accounting.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about public sector accounting.
- But because accounting is often complex and new accounting situations can emerge rapidly, the standards do not always provide explicit instructions on how to approach specific accounting situations.
- It is sometimes necessary to look to other accounting methods to support preparing Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.

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- To quote briefly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*
- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*
- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.

[1] Public Sector Accounting Standards Handbook, PS1150.07

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- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.
- Taking into account the expertise and advice we have access to, we make a decision on how the government should present its financial statements that is in line with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

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2. Long-Form Member Question_Open Government and Public Accounts_20180216.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the government making sure that the Public Accounts are open and accessible to everyone in Ontario?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing government information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.
- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.

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- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the government turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

  Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

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What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to government data by proactively sharing government datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all government data open by default, and the International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

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Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the government to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the government's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure government spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.
- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

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Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a “just the essentials” look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the “just the essentials” Public Accounts page, they can find highlights of the province’s spending and a simple breakdown of the province’s revenue.
- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the government releases the Public Accounts each year, and the value of this report to Ontarians.
- This video is hosted on YouTube by the Ontario government account, and remains embedded on the Public Accounts page each year.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader’s guide to the Public Accounts.

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- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.
- These tables are found on the Ontario.ca Public Accounts pages dedicated to all three volumes of the Public Accounts.
- The data is divided into three tables, sorted by government organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular government entity could type the organization's name into the search bar and have the results show up right away.

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- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all government spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of government spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how government spending fits together to make up the entire amount that the government spends each year.
- It however doesn't show financial reimbursements, recovers or accounts that are in a net-negative position.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.
- The government codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- The government also ensures that all documents that are available for download are fully accessible.

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Open Information and Open Data

- In addition to all the work our officials have done to help Ontarians understand the Public Accounts, Ontario has also released the web content for the Public Accounts under Ontario's Open Government Licence.
- This means that the web content for the Public Accounts can be used worldwide, royalty-free, forever – provided anyone using the information follows the terms of the licence.
- Anyone can copy, modify, publish, translate, adapt, distribute or otherwise use the information in any medium, mode or format, for any lawful purpose.
- The raw spreadsheets for the three volumes of the Public Accounts are also available online in the Ontario Data Catalogue.
- Like much government data, the financial data that the Treasury Board Secretariat uses to create the Public Accounts is opened to the public so it can be used in innovative ways.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.
- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the government compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

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3. Long-Form Member Question_Engagement Between TBS and OAGO_20180215.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the government is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- So even before everything is compiled into the Public Accounts, there is lots of work being done with the Office of the Auditor General to make sure the Public Accounts process goes as smoothly as possible.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the government and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

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How OPCD Works with OAGO Generally

- For example, one of the things that enables the Public Accounts process to run smoothly is the robust financial controls that are in place across government.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, which is used to support the Provincial Controller's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the government is operating transparently when preparing its finances, including the Public Accounts.
- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration in action is the annual SysTrust Audit, which is completed by another team within the Office of the Provincial Controller Division.

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- The SysTrust Audit process evaluates the reliability of government financial systems, including the Integrated Financial Information System, known as IFIS, and the Workplace Information Network, known as WIN.
- The SysTrust Audit forms a part of the Certificate of Assurance attestation that I just described.
- This audit report is also provided to the Office of the Auditor General, so it can provide input on the audit's methodology and results.
- The staff at the Office of the Provincial Controller Division correspond with the Office of the Auditor General on a regular basis during the SystTrust Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- That formal process usually begins in March, prior to the government's fiscal year end.
- These meetings continue throughout most of the rest of the year, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management, and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller and the Office of the Auditor General meet regularly throughout this time.
- In these meetings, representatives from both offices discuss areas of audit focus and information requirements.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.

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- The Office of the Provincial Controller also provides analysis related to any items that might arise while preparing the Public Accounts.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- The government also reviews the Audit Planning Report produced by the Office of the Auditor General, and works with the office to ensure the completeness of the audit plan.
- Reviewing the Audit Planning Report provides an opportunity for the government to identify potential areas of improvement for future Public Accounts.
- The government also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the government time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.
- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the government's records.

Examples of Success in this Approach

- The province and the Auditor General work closely to make sure that the government is accountable when it comes to Ontario's finances.

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- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the government made is in how third party revenues are shown in the Public Accounts document.
- Third party revenues in this context just means money that comes from things like hospitals, school boards and colleges.
- In total, this means about $8.2 billion from things like tuition fees, patient fees, research grants and donations are no longer shown separately from government revenues.
- These amounts are not included in the revenues of the ministry that oversees the third party organization.
- This also means that the liabilities and expenses of third party organizations are shown with the ministry that oversees the organizations.
- All assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear as a line in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which comes out to about $591 million, is now included as interest paid on the debt of the ministries responsible for these organizations.
- These changes do not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party expenses in their accounting.

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- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The changes were made to comply with the Public Sector Accounting Standards.
- And, the Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government businesses.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.
- Ontario is now using the IFRS standards to account for its rate-regulated government businesses.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a rate-regulated government business is.
- When I say government businesses, I mean government organizations that:
    - Are legal entities that are separate from the government with the power to draw up and sign contracts in their own name. Government businesses can sue on their own behalf and be sued.

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  - They have the financial and operating authority to do business without constantly seeking government permission.
  - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
  - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- "Rate-regulated" government businesses are just government businesses that have to set the rates they charge for their goods and services at a specific level due to government regulations.
- Rate-regulated government businesses can't change what they charge based on the market – they have to follow regulations.
- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.

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- In previous years, the government has used the Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.
- In the future, the government will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the government has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the government wants to ensure that the Public Accounts are released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.

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- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to get personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.
- Many of the changes that the government has suggested are supported by the Auditor General, and government staff work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the SysTrust Audit and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

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4. Long-Form Member Question_IESO Use of Market Accounts_20180214.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

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QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the government makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. Once again I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather it's to ensure that when we receive that accounting, it has been done according to public sector accounting standards.

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- In the case of IESO, its board of directors made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's internal audit committee and a third-party independent external auditor.
- The principles used in reporting the IESO market accounts assets and liabilities have been used in the past.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO decided to recognize its market accounts assets and liabilities – the things that make up those $17 billion in transactions – in its financial results.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for taking that electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

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Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. What we do know about is accounting.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we require organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the finances that are provided to us.
- The IESO is a government organization that is regulated by the Ontario Energy Board.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own internal audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.

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- The Office of the Provincial Controller approved this approach because it is in line with the Public Sector Accounting Standards based on previous accounting decisions, the advice of IESO's external auditor and the IESO Audit Committee.

Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO are counterparties to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- This accounting is also consistent with the accounting that was previously used by the Ontario Power Authority in regards to generator contracts that were signed by that organization.
- The Ontario Power Authority was merged with the IESO on January 1, 2015, through an amendment to the Electricity Act.
- What interests me as the Provincial Controller is what that merger meant for the accounting practices of the IESO, and how it reported its finances to the Treasury Board Secretariat.
- The merger between the IESO and the Ontario Power Authority brought together real-time operations of the electricity grid and long-term planning, procurement and conservation efforts.
- It also brought the accounting considerations for the Ontario Power Authority together with the IESO.
- To me, this seemed appropriate, as the method used in the 2016-17 Public Accounts by the IESO was used in past financial statements for the Ontario Power Authority, which was accepted by the Office of the Auditor General at that time.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.

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- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.
- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would go unreported in the government's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

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Conclusion

- So in conclusion, I'll say again that the government supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.
- The government accepts the financial results presented from government accountable not-for-profits like the IESO, provided they follow the Public Sector Accounting Standards and government accounting policy.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards. It is in line with how the Ontario Power Authority, merged with the IESO in 2015, accounted for its market accounts before.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, honest and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- The work that the Office of the Provincial Controller does to ensure that the Public Accounts are accurate and stringent is not a responsibility that it takes lightly.

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- I'm happy to have had the opportunity to lay out the reasons why the Office of the Provincial Controller supports the IESO accounting decisions for the 2016-17 Public Accounts.

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5. Long-Form Member Question_Pension Asset Accounting_20180214.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the government, I would welcome that as well.

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ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the government continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the government released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue. The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the government as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the government's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the government has been using in Public Accounts since 2001, and so the government was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

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- To allow for the release of the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The government then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- This is a key part of our role as public servants – to conduct our due diligence and provide our best advice based on our professional judgment.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the government that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from our external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.

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- The government has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.
- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one. External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the government on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the government announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the government as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.

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  - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

- The government asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The government accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as government assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the government's decision to list these pension plans as assets.
- The panel needed to determine whether the government could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the government and the employee sponsors.

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- This future economic benefit can be realized by reducing the contributions the government makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the government controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the government can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.

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- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.
- It is important to note that the government is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the government could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the government to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor,

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only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.
- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the government's position on these pension plans, the government also sought out further advice.
- The government sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.

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- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The government's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the government determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the government is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the government arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- In closing, I want to reiterate that while the province respectfully disagrees with the Office of the Auditor General's interpretations of the Public Sector Accounting Standards on this issue, we are open to continuing to discuss it in the hopes of finding a resolution.

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- Public Sector Accounting Standards do not say that the government must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the government and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the government following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.
- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

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Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

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LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Fall Economic Statement forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.

- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.

- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.

- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Debt_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24.
- The government also continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Ontario Economic Outlook and Fiscal Review forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.

- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Fair Hydro_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

A.pdf

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

AG 2017_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Chapter 2.pdf (721675 Bytes).

AG 2017_News Release_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

AG 2017_Summary_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

AG 2017 Report on Fair Hydro Plan.stub.pdf

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

FW_ SCOPA Prep _ Material for Review.pdf

From:	Cox, Hilary (ENERGY)
To:	Hendy, Adam (ENERGY)
Subject:	FW: SCOPA Prep / Material for Review
Date:	January 29, 2018 5:14:00 PM
Attachments:	SCOPA QAs_MOE_20180124 v1_ieso.docx SCOPA_QA_Friendly_ENERGY (2) ieso.docx Response Table_Example_20180122 (3) ieso.docx

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Hey Adam –
IESO input for Chapter 2 materials.

Still waiting for OPG input on friendly and LSB input on bigger QA pkg.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: January 29, 2018 5:10 PM
To: Hume, Steen (ENERGY)
Cc: Cox, Hilary (ENERGY); Kate Longmoore; David Barrett; Kim Marshall
Subject: RE: SCOPA Prep / Material for Review

Steen,

The documents attached have been reviewed and updated accordingly. I would note that we are still in the process of an audit with the AG at the moment, so there may be further updates to these as we get greater context around the outcomes of that process.

Cheers,

Jordan

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Conservation: www.saveONenergy.ca | Twitter: saveONenergyOnt | LinkedIn: saveONenergy

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From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: January 29, 2018 3:00 PM
To: Jordan Penic
Cc: Cox, Hilary (ENERGY); Kate Longmoore; David Barrett; Kim Marshall
Subject: FW: SCOPA Prep / Material for Review

Hi Jordan: Hope you had a good weekend. Just checking in on the status of IESO input on the attached SCOPA / Chapter 2 products.

We're trying to land a package for DMO review before sending on to TBS.

Thanks,

Steen
(416) 314-6190

From: Hume, Steen (ENERGY)
Sent: January 26, 2018 1:22 PM
To: 'Jordan Penic'
Cc: Cox, Hilary (ENERGY); Kate Longmoore; David Barrett; Kim Marshall
Subject: RE: SCOPA Prep / Material for Review

Thanks Jordan.

I've attached a package of Q&As that TBS asked for related to the OAG's recommendations in Chapter 2. There are about 5 questions related to IESO that I'd ask that your folks take a looks at. If you want to add some additional questions, please do (e.g., Q&As prepared for Estimates on IESO's role in OFHP).

If you have any questions, please give me a call.

Steen
(416) 314-6190

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: January 25, 2018 6:20 PM
To: Hume, Steen (ENERGY); Kim Marshall
Cc: Cox, Hilary (ENERGY); Kate Longmoore; David Barrett
Subject: RE: SCOPA Prep / Material for Review

Hi Steen,

Thanks. We'll target getting this turned around by Monday and let you know if we run into any delays.

Cheers,

Jordan

From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: January 25, 2018 2:24 PM
To: Jordan Penic; Kim Marshall
Cc: Cox, Hilary (ENERGY)
Subject: SCOPA Prep / Material for Review

Good afternoon Kim / Jordan. As we prepare for our appearance at SCOPA, we've been asked by our COMs shop for IESO input on the attached "friendly Q/A" and "Response Table" to the AG's recommendations. There will likely be additional products to review, but for now this is the first batch.

- Re the friendly Q/A, content for IESO's question was taken from the friendly Q/A used at estimates. Generally looks good. I'd ask that your review and update as necessary.

- Re Response Table, I've highlighted the section that IESO should review and update as necessary.

The edited materials can be passed along to Hilary. Ideally, it would be good to get materials back by Monday.

If you have any questions, please give me a call.

Steen

(416) 314-6190

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought the IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

~~Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.~~

Commented [KL2]: The OPA previously reported a subset of market accounts, but were not subject to an AG audit.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

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This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect the IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, the IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees,

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which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- ~~The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.~~

Commented [SN3]: Duplicate of first bullet

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.

Commented [KL4]: It may be more appropriate for the IESO to respond.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

~~We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.~~

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~~The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.~~

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement

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under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

Commented [KL5]: This deviates slightly from the IESO's position:
The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (the Electricity Act") and the Ontario Energy Board ("OEB") Act, 1998 (the "OEB Act"). The IESO activities subject to rate regulation by the OEB include the following:
(a) IESO's expenditure, revenue requirements and fees;
(b) Smart metering activities; and
(c) A subset of market accounts.

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(6]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

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- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal,

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accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority

in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

[8] Ontario Power Generation
[9] Ontario Power Generation

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With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(7]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(8]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat

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Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(9]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(10]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is the Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Response

   - OFHP operates under a financial and accounting framework that is appropriate for the intended purpose.
   - It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.
   - OFHP is comprised of a series of policy decisions.
   - The impact of some of these decisions will be borne by the Province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.
   - While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent.
   - Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.
   - Ontario has a strong track record of producing high-quality financial reports on a timely basis.
   - Ontario will continue to move forward and present the Province's finances fairly and accurately and in accordance with PSAS.

Commented [HA(1]: Unfortunately not much pre-existing language on this, hoping policy can help us fill in the blank here.

Commented [HA(2]: Messaging taken from OPG Tech Briefing QA currently with policy.

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2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Commented [HA(3]: Language predominantly from estimate friendlies

Response

- The IESO follows Public Sector Accounting Standards (PSAS) for its accounting.
- The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities.
- In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard.
- If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

- In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.
- This decision was supported by an accounting opinion from our external auditors at KPMG and ~~as we've just discussed,~~ aligns the IESO with six of the eight other independent system operators in North America.
- It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter.

DRAFT

- The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.
- Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.
- Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.
- By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.
- When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.
- Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.
- We had discussions with these organizations about their operations and accounting practices.
- We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.
- From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:
    1. **ISO New England;**
    2. **NYISO**, in New York;
    3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
    4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
    5. **CAISO**, in California;
    6. **ERCOT**, in Texas; and
    7. **Southwest Power Pool**, in central US.

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- When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:
    1. **AESO**, in Alberta;
    2. ISO New England;
    3. NYISO;
    4. MISO;
    5. PJM; and
    6. ERCOT.
- I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).
- When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.
- When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.
- So, when we looked at making the accounting change we considered that:
    1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
    2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
    3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
    4. That this change would **bring IESO in line with its peers** across North America; and
    5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.
- Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.
- We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

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- As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.
- I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.
- To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.
- KPMG conducted their own research into the issue.
- KPMG subsequently issued a white paper on the accounting change, supporting the IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.
- The accounting change was reviewed by IESO's Board of Directors, and approved.
- As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.
- Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.
- These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.
- Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.
- It is ~~the auditor's~~ KPMG's responsibility to express an opinion on the financial statements based on their audit.
- In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.
- Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.
- Here are some of the things an audit looks into:
    - An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

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  - The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
  - In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".
- This was followed by a statement of their unqualified opinion:
  - In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.
- This is taken directly from our 2016 financial statements, which are publically available.
- So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.
- ~~The IESO regularly reviews its accounting policies.~~
- ~~Prompted by a discussion with government about Ontario's Fair Hydro Plan (OFHP), IESO revisited its options for reporting market accounts and recognizing regulatory assets.~~
- ~~Working with its auditor, IESO determined that a choice was required as to whether or not to record Market Accounts and regulatory assets and liabilities in IESO financial statements.~~
- ~~By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.~~
- ~~In order to confirm our decision, IESO asked KPMG to conduct some research on our behalf into the appropriateness of adopting regulated accounting.~~

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- ~~Their research agreed with our view that the recognition of regulatory assets and liabilities better reflects the economic substance of IESO's operations and enhances the relevance, transparency and accountability of its financial reporting.~~
- ~~It~~KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.
- Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.
- When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

- Let me make a few remarks about OPG's qualifications as the financing manager of Ontario's Fair Hydro Plan:
- OPG currently manages an $18 billion nuclear fund and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.
- OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.
- These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

Commented [HA(4]: Again, hoping policy can help us lengthen this one.

Commented [HA(5]: Language Predominantly Taken from Estimates friendlies.

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- OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing the Fair Hydro initiative.

- For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

- In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

- OPG will be acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, basically arranging for a variety of debt financing for the deferred costs.

- We will be setting up a financing entity in the form of a "Trust", which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

- The financing requirements are determined by the legislation and the reduction in consumers' bills and will be funded through the Trust.

- OPG will arrange for third party debt, supplement this funding with the Province, and OPG will contribute additional funds through increased equity and debt of the OPG operating company that will be lent to the Trust, also at equivalent market rates.

- OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the Independent Electricity System Operate (IESO), and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

- There are three specific areas that we supplemented our team with external resources.

    - First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
    - The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

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  - The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

- As has been mentioned OPG has strong capabilities across these areas but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

- The structure that has been set up in fact ensures a high level of transparency.

- As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents

- Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

- All of this will be reported in OPG's financial reports on a quarterly and annual basis. OPG's financial reports are filed with the Ontario Securities Commission (OSC) and subject to OSC oversight.

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Response Table_Example_20180122 (3) ieso.pdf

EXAMPLE

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The IESO's change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
Fair Hydro Plan	Highlight due diligence	The province will continue to prepare its

Commented [KL1]: May be able to mention 2017 audit results at this point.

Commented [HS(2]: Can IESO fact check this section.

Make any edits and/or additional content as necessary.

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Accounting: "convenient/inappropriate accounting"	included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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FW_ SCOPA QAs - For MOF_ENER Review(1).pdf

From: Schwab-Pflug, Emma (ENERGY)
To: Kitchen, Matthew (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: FW: SCOPA QAs - For MOF/ENER Review
Date: February 15, 2018 1:55:22 PM
Attachments: 2018-02-15 SCOPA QAs_FOR ENERGY_CEEB_v1.docx

Meant to cc Kitchen:

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-15-18 1:55 PM
To: Syed, Usman (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY); Kolodziej, Monika (ENERGY); Edwards, Matthew (ENERGY)
Subject: FW: SCOPA QAs - For MOF/ENER Review

Usman, please see suggested edits on last page – this was an asap request:

From: Kitchen, Matthew (ENERGY)
Sent: February-15-18 12:20 PM
To: Syed, Usman (ENERGY); Colalillo, Sam (ENERGY); Johnson, Paul (ENERGY)
Cc: Edwards, Matthew (ENERGY); Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY); Ieraci, Vanessa (ENERGY)
Subject: Fw: SCOPA QAs - For MOF/ENER Review

See below for asap request from tbs.

Matthew Kitchen
416 325-7065

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Sent: Thursday, February 15, 2018 12:09 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs - For MOF/ENER Review

Re-sending with the version containing my edits.

From: Hendy, Adam (ENERGY)
Sent: February-15-18 12:07 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: SCOPA QAs - For MOF/ENER Review
Importance: High

Hi Hilary and Matt,

TBS has asked to review their attached QAs for SCOPA. In the doc they have flagged a few areas for Energy input, which I have answered using approved

messaging from our materials.

Hoping CRED and ESP can take a look at this ASAP and confirm if my additions are suitable.

Thanks for this, and sorry for the rush.
Adam

From: Tharani, Alisha (TBS)
Sent: February-15-18 11:39 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Cc: Miller, Amanda (TBS)
Subject: SCOPA QAs - For MOF/ENER Review

Hi Peter, Adam,

We have recently received feedback from our program area regarding questions that were included in our TBS QA document that may be better suited for Finance and Energy.

See attached.

Wanted to give you a head's up that though the way some of the questions may be worded, the response is better suited to come from your ministry/agencies. We have included the response that we had – but of course it will need to be vetted by your respective program areas.

Please let us know if you have any issues with how we've structured the handoff. If it's possible to get your feedback ASAP, it would be very much appreciated.

Thank you,

Alisha

2018-02-15 SCOPA QAs_FOR ENERGY_CEEB_v1.pdf

SCOPA QAs – ENERGY

Flagged by TBS for Energy's Review:

1. **Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?**
   TO CONFIRM whether IESO or TBS should answer this question.

   Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

Commented [TA(1]: Should IESO or TBS answer this question?

2. **Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?**
   TO CONFIRM whether IESO or TBS should answer this question.

   The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

Commented [TA(2]: Should IESO or TBS answer this question?

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Ontario Fair Hydro Plan

AG Recommendation #3: OFHP

1. **The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?**

Commented [CV3]: I think you will want Energy to add content to this question re: how the Energy sector is financed (e.g. at market rates vs. the provincial borrowing rate).

Commented [TA(4]: Have left initial key messages for TBS. Will flag for Energy that this question would be passed to them.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

2. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates.

The preliminary estimate from March 2017 was about $28 billion[1]. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[2]. With respect to the $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

~~The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.~~

~~Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).~~

~~Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.~~

For further questions about borrowing estimates, please contact the Ministry of Finance.

Ontario Fair Hydro Plan

AG Recommendation #9: Arm's Length Trusts

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

Commented [CV5]: Energy needs to update, as OPG Trust has placed its first tranche of debt in the market.

Commented [TA(6]: Have left initial key messages for TBS reference and will flag for Energy that this question will be passed to them to speak to the fact that OPG Trust has placed its first tranche of debt in the market.

Commented [CV7]: This question may be better split into two (a) the general use of a trust which TBS would answer and (b) why a trust for the low income affordability fund which Energy would answer.

Commented [TA(8]: Have included handover to Energy to speak to the Affordability Fund.

[1] Ministry of Energy, submission to Financial Accountability Officer
[2] Ministry of Energy
[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

The Board of Trustees for the Trust includes representation from community service organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three electricity distributors (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

There are report-back requirements on the Trust for their use of funds, ~~transferred~~ as well as the ability for the ~~government~~Province or its authorized representatives to conduct an audit to gain assurance that the funds have been used for the purposes intended. The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

~~While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended~~.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Commented [ESPf9]: ENERGY: Added more detail in case response is split into two as per CV7 above. This detail helps elaborate on:

(b) why a trust for the low income affordability fund which Energy would answer.

Commented [ESPf10]: ENERGY: Refined to be consistent with TPA

Commented [ESPf11]: ENERGY: This information now incorporated in paragraph above

FW_ SCOPA QAs - For MOF_ENER Review.pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY); Kolodziej, Monika (ENERGY); Edwards, Matthew (ENERGY)
Subject:	FW: SCOPA QAs - For MOF/ENER Review
Date:	February 15, 2018 1:55:10 PM
Attachments:	2018-02-15 SCOPA QAs_FOR ENERGY_CEEB_v1.docx

Usman, please see suggested edits on last page – this was an asap request:

From: Kitchen, Matthew (ENERGY)
Sent: February-15-18 12:20 PM
To: Syed, Usman (ENERGY); Colalillo, Sam (ENERGY); Johnson, Paul (ENERGY)
Cc: Edwards, Matthew (ENERGY); Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY); Ieraci, Vanessa (ENERGY)
Subject: Fw: SCOPA QAs - For MOF/ENER Review

See below for asap request from tbs.

Matthew Kitchen
416 325-7065

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Sent: Thursday, February 15, 2018 12:09 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs - For MOF/ENER Review

Re-sending with the version containing my edits.

From: Hendy, Adam (ENERGY)
Sent: February-15-18 12:07 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: SCOPA QAs - For MOF/ENER Review
Importance: High

Hi Hilary and Matt,

TBS has asked to review their attached QAs for SCOPA. In the doc they have flagged a few areas for Energy input, which I have answered using approved messaging from our materials.

Hoping CRED and ESP can take a look at this ASAP and confirm if my additions are suitable.

Thanks for this, and sorry for the rush.
Adam

From: Tharani, Alisha (TBS)
Sent: February-15-18 11:39 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Cc: Miller, Amanda (TBS)
Subject: SCOPA QAs - For MOF/ENER Review

Hi Peter, Adam,

We have recently received feedback from our program area regarding questions that were included in our TBS QA document that may be better suited for Finance and Energy.

See attached.

Wanted to give you a head's up that though the way some of the questions may be worded, the response is better suited to come from your ministry/agencies. We have included the response that we had – but of course it will need to be vetted by your respective program areas.

Please let us know if you have any issues with how we've structured the handoff. If it's possible to get your feedback ASAP, it would be very much appreciated.

Thank you,

Alisha

2018-02-15 SCOPA QAs_FOR ENERGY_CEEB_v1_1.pdf

SCOPA QAs – ENERGY

Flagged by TBS for Energy's Review:

1. **Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?**
   TO CONFIRM whether IESO or TBS should answer this question.

   Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

Commented [TA(1]: Should IESO or TBS answer this question?

2. **Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?**
   TO CONFIRM whether IESO or TBS should answer this question.

   The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

Commented [TA(2]: Should IESO or TBS answer this question?

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Ontario Fair Hydro Plan

AG Recommendation #3: OFHP

1. **The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?**

Commented [CV3]: I think you will want Energy to add content to this question re: how the Energy sector is financed (e.g. at market rates vs. the provincial borrowing rate).

Commented [TA(4]: Have left initial key messages for TBS. Will flag for Energy that this question would be passed to them.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

2. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates.

The preliminary estimate from March 2017 was about $28 billion[1]. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[2]. With respect to the $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

~~The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.~~

~~Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).~~

~~Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.~~

For further questions about borrowing estimates, please contact the Ministry of Finance.

Ontario Fair Hydro Plan

AG Recommendation #9: Arm's Length Trusts

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

Commented [CV5]: Energy needs to update, as OPG Trust has placed its first tranche of debt in the market.

Commented [TA(6]: Have left initial key messages for TBS reference and will flag for Energy that this question will be passed to them to speak to the fact that OPG Trust has placed its first tranche of debt in the market.

Commented [CV7]: This question may be better split into two (a) the general use of a trust which TBS would answer and (b) why a trust for the low income affordability fund which Energy would answer.

Commented [TA(8]: Have included handover to Energy to speak to the Affordability Fund.

[1] Ministry of Energy, submission to Financial Accountability Officer
[2] Ministry of Energy
[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

The Board of Trustees for the Trust includes representation from community service organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three electricity distributors (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

There are report-back requirements on the Trust for their use of funds, ~~transferred~~ as well as the ability for the ~~government~~Province or its authorized representatives to conduct an audit to gain assurance that the funds have been used for the purposes intended. The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

~~While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended~~.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Commented [ESPf9]: ENERGY: Added more detail in case response is split into two as per CV7 above. This detail helps elaborate on:

(b) why a trust for the low income affordability fund which Energy would answer.

Commented [ESPf10]: ENERGY: Refined to be consistent with TPA

Commented [ESPf11]: ENERGY: This information now incorporated in paragraph above

FW_ SCOPA QAs_MOE_20180124 v1_SH(1).pdf

From:	Kitchen, Matthew (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY); Edwards, Matthew (ENERGY); Krsikapa, Senka (ENERGY)
Subject:	FW: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 26, 2018 2:13:47 PM
Attachments:	SCOPA QAs_MOE_20180124 v1_SH.DOCX

Comms has drafted a set of QAs regarding SCOPA materials for TBS (led by ESP). ESP has flagged the section on the AF – asking us to beef it up. Please provide updates to the attached by noon Monday.

Matt

Matthew Kitchen
416-325-7065

From: Cox, Hilary (ENERGY)
Sent: January-26-18 1:34 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

From: Hendy, Adam (ENERGY)
Sent: January 24, 2018 3:09 PM
To: Thiru, Dhil (ENERGY); Cox, Hilary (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Whytock, John (ENERGY); Lyon, Sam (ENERGY); Perkins, Michael (ENERGY); Nucciarone, Michael (ENERGY)
Subject: For ESP Review: SCOPA Materials Drafts

Hi Dhil and Hilary,

Attached for your review are the following items that are due to TBS for SCOPA:

- **QA and KM Template –** A lot of this language is in your hands already with the OPG Tech Briefing QA that is due back tomorrow, hoping you can update/add with this messaging where indicated.
- **Response Table**

- **Friendly Q's –** We inserted everything we had for Qs 1 and 3, we will need ESP's help to get to the 20 minute mark for these. I believe Q2 is where we need it to be however.

We will leave it up to ESPD to decide if there is enough time to run the friendlies by OPG and IESO. We are comfortable with running them through next week, as long as we are able to provide ministry edits to TBS for their Monday deadline.

Please do not hesitate to call if you have any questions or concerns.

Thanks,
Adam

SCOPA QAs_MOE_20180124 v1_SH_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

DRAFT

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

DRAFT

for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

DRAFT

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

DRAFT

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(4]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(5]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(6]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ SCOPA QAs_MOE_20180124 v1_SH(2).pdf

From:	Kitchen, Matthew (ENERGY)
To:	Edwards, Matthew (ENERGY)
Subject:	FW: SCOPA QAs_MOE_20180124 v1_SH
Date:	February 1, 2018 9:34:27 AM
Attachments:	2018-01-29 SCOPA QAs_MOE_20180124 v2_CEEB_v2.docx

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Nope, went to Carl.

Matthew Kitchen
416-325-7065

From: Kitchen, Matthew (ENERGY)
Sent: January-29-18 3:21 PM
To: Ridd, Carl (ENERGY); Hendy, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Yordi, Samer (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

CRED's ADM approved tracked edits – pp 13-15. Please also note comment CRED4 on p 15.

Matt

Matthew Kitchen
416-325-7065

From: Ridd, Carl (ENERGY)
Sent: January-29-18 3:16 PM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

SNAP ADM approved input/edits to the QA's as requested.

Thanks,

Carl

From: Hendy, Adam (ENERGY)
Sent: January-29-18 2:04 PM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

Hi Again Everyone,

Just following up on these status of these. Still hoping we can get these fully approved and over to TBS today.

Thanks,
Adam

From: Hendy, Adam (ENERGY)
Sent: January-29-18 9:15 AM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH
Importance: High

Hi Folks,

Just a friendly reminder that we will need these back as soon as possible today. We need to have these DMO/MO approved and in TBS' hands today in preparation for their coming meeting with the SoC.

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: January-26-18 1:34 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

2018-01-29 SCOPA QAs_MOE_20180124 v2_CEEB_v2.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

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IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

DRAFT

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

DRAFT

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

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Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy
[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately ~~70~~ 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

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- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

The Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

Commented [CRED4]: Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

Commented [HS(5]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(6]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(7]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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FW_ SCOPA QAs_MOE_20180124 v1_SH.pdf

From:	Edwards, Matthew (ENERGY)
To:	Kitchen, Matthew (ENERGY)
Subject:	FW: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 26, 2018 1:35:00 PM
Attachments:	SCOPA QAs_MOE_20180124 v1_SH.docx

Can you get this one?

From: Cox, Hilary (ENERGY)
Sent: January 26, 2018 1:34 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Kitchen, Matthew (ENERGY) <Matthew.Kitchen@ontario.ca>; Yordi, Samer (ENERGY) <Samer.Yordi@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>
Cc: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

SCOPA QAs_MOE_20180124 v1_SH_1_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

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IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

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Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
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In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

DRAFT

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(4]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

DRAFT

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(5]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(6]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

DRAFT

FW_ SCOPA Report Posted_ Public Accounts of the....pdf

From: Nucciarone, Michael (ENERGY)
To: Schlaepfer, Martin (ENERGY)
Subject: FW: SCOPA Report Posted: Public Accounts of the Province (Ch 2 of AG"s 2017 Annual Report)
Date: May 3, 2018 3:24:18 PM
Attachments: Public Accounts of the Province (Final) English.pdf

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fyi

From: Hendy, Adam (ENERGY)
Sent: May 3, 2018 3:20 PM
To: Whytock, John (ENERGY) <John.Whytock@ontario.ca>; Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Subject: Fw: SCOPA Report Posted: Public Accounts of the Province (Ch 2 of AG's 2017 Annual Report)

Fyi

From: Tharani, Alisha (TBS) <Alisha.Tharani@ontario.ca>
Sent: Thursday, May 3, 2018 3:16 PM
To: Rubin, Jack (TBS); Hadisi, Lawvin (TBS); Skoberne, Vivienne (TBS); Ue, Allison (TBS); Nelson, Dane (TBS); Liu, Mary (TBS); Walsh, Laura M. (TBS); Laughton, Patrick (TBS); Hosick, Sarah (TBS); @FIN-L-O-CSB-ISSUES; @ENERGY-COMM-Issues_and_MediaRelations
Cc: @TBS-L-Issues and Media; Ovenden, Erin (TBS)
Subject: SCOPA Report Posted: Public Accounts of the Province (Ch 2 of AG's 2017 Annual Report)

Hi all,

The Standing Committee on Public Accounts (SCOPA) has tabled their review of Chapter 2, Public Accounts of the Province, of the Auditor General's 2017 Annual Report. It is attached here and available online.

The Committee's report provides two recommendations:

> 1. Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.
>
> 2. The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.

Like the Committee's recent report on government advertising, this report includes a dissenting opinion from members of the PC party (beginning on page 5).

The dissenting opinion includes the following:

> Recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:

- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;
- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

Best,

Alisha

Alisha Tharani
Senior Issues & Media Advisor | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

Public Accounts of the Province (Final) Englis.pdf

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

PUBLIC ACCOUNTS OF THE PROVINCE

(CHAPTER 2, 2017 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL OF ONTARIO)

3rd Session, 41st Parliament
67 Elizabeth II

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Legislative Assembly of Ontario

Assemblée législative de l'Ontario

The Honourable Dave Levac, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Ernie Hardeman, MPP
Chair of the Committee

Queen's Park
May 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS
MEMBERSHIP LIST

3rd Session, 41st Parliament

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LIZ SANDALS

JOHN VANTHOF regularly served as a substitute member of the committee.

KATCH KOCH
Clerk of the Committee

LAURA ANTHONY
Research Officer

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INTRODUCTION

On February 28, 2018, the Standing Committee on Public Accounts held public hearings on the audit (Chapter 2, 2017 *Annual Report* of the Auditor General of Ontario) of the Public Accounts of the Province administered by the Ministry of Finance and the Treasury Board Secretariat.

The Committee endorses the Auditor's findings and recommendations, and presents its own findings, views, and recommendations in this report. The Committee requests that the Ministry provide the Clerk of the Committee with written responses to the recommendations within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified.

ACKNOWLEDGEMENTS

The Committee extends its appreciation to officials from the Treasury Board Secretariat, the Ministry of Finance, the Ministry of Energy, and the Cabinet Office. The Committee also acknowledges the assistance provided during the hearings and report-writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and staff in the Legislative Research Service.

BACKGROUND

Ontario's Public Accounts for the fiscal year ending March 31, 2017, were prepared under the direction of the Minister of Finance (as required by the *Financial Administration Act*) and the President of the Treasury Board. The Public Accounts consist of the Province's annual report, including the consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets, and maintain proper records.

AUDIT OBJECTIVES AND SCOPE

As required under the *Auditor General Act*, the Office of the Auditor General of Ontario, as the legislature's Auditor, audits the consolidated financial statements, with the objective of providing reasonable assurance that the statements are free of significant errors or omissions and are fairly presented in accordance with appropriate generally accepted accounting principles. The consolidated financial statements, along with the independent Auditor's Report, are included in the Province's annual report.

In 2017, for the second consecutive year, the Auditor General issued a qualified opinion on the Province's consolidated financial statements.

MAIN POINTS OF AUDIT

The Auditor General stated that the consolidated financial statements for 2016/17 are fairly presented with two exceptions:

- The government overstated the net pension assets relating to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). As a result, the Province's net debt and accumulated deficit at March 31, 2017, is understated by $12.429 billion and the 2016/17 annual deficit is understated by $1.444 billion. (Net debt is the difference between the government's total liabilities and its financial assets.)

- The government inappropriately recognized and consolidated market account assets and liabilities relating to transactions between power generators and distributors managed by the Independent Electricity System Operator (IESO). As a result, IESO's Other Assets and Other Liabilities at March 31, 2017, are overstated by $1.652 billion.

The Auditor General stated that the Province's accounting treatments in these two cases did not conform to Canadian Public Sector Accounting Standards (PSAS).

The Auditor's report expressed concern that the proposed accounting treatment for the Fair Hydro Plan could have a material impact on the Province's annual financial results for the year ended March 31, 2018, and could become a significant concern to the Auditor's Office.

The Auditor General continues to express concern regarding the Province's growing debt burden. The Auditor's report stated that after adjusting for the net pension assets of the OTPP and the OPSEUPP and the expected costs of the Fair Hydro Plan, the Province will continue to incur annual deficits, and net debt will continue to increase as the government borrows to finance its operations.

The audit expressed concern that the Province's March 31, 2017, consolidated financial statements recognize rate-regulated assets, which the audit stated is not permitted when applying PSAS to government financial statements. The audit noted that this view is supported by many public-sector accounting experts in Canada, including Auditors General across Canada. (Rate-regulated accounting was developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated by an independent regulator.) The audit concluded that this did not cause a material misstatement in the 2016/17 consolidated financial statements but stressed that it could do so in the future.

The Auditor General also noted that the government had not shared, on a timely basis, the work performed by external advisors in developing an accounting/financial design for the Fair Hydro Plan, and that delays were experienced in receiving communication from the component auditor of the IESO. The Auditor General recommended the government communicate if and when it would file a regulation that would enable the Auditor General to review the pre-election report. The Auditor encouraged the Ministry of Finance and

Treasury Board Secretariat to ensure that her Office has sufficient time to review and comment on the pre-election report.

O. Reg. 41/18, made in February 2018, stipulates that the deadline for the release of the pre-election report is seven days after the day on which the Minister of Finance moves the Budget motion in 2018.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

A number of issues were raised in the audit and before the Committee. The Committee considers the issues below to be of particular importance.

The Treasury Board Secretariat (TBS) stated the Province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). Treasury Board representatives told the Committee that public sector accounting standards are principle-based and not a prescriptive set of rules. Further, the Committee heard that the PSAS require the application of professional judgement. The Treasury Board said it works closely with the Office of the Auditor General on public accounts.

The Treasury Board said it made several accounting changes in 2016/17, including accounting for market accounts and adopting the rate-regulated accounting used by the Independent Electricity System Operator (IESO), and reporting pension assets for jointly sponsored pension plans. The Treasury Board stated that if professional accountants in the public service do not agree with the Auditor General, it is "not as simple as agreeing to accept the Auditor General's interpretation."

The Committee asked if the Treasury Board, Ministries, or the IESO sought the Auditor General's advice prior to drafting the legislation for the Fair Hydro Plan. The Treasury Board and the IESO responded that the Auditor's feedback was sought after the policy decision was made. The Treasury Board indicated that it equipped itself to execute the government's preferred policy direction to the best of its abilities. The audit noted the government did not inform the Auditor's Office of its engagements with external advisors until after the Office became aware that significant discussions were being held on matters related to the Fair Hydro Plan.

The Committee asked if the Treasury Board and the Ministries' staff gave the Ministries and the Premier their best impartial advice regarding the Fair Hydro Plan and rate-regulated accounting. The Committee was told that it is the role of the public service to provide the best objective advice to the elected government and to comply with codes of professional conduct. The Ministry of Energy stated that their advice was given in accordance with the government's policy direction to provide rate relief for Ontario consumers by shifting the costs of social programs from the rate base to the tax base.

The Committee asked why the IESO made the decision to include market assets in 2017 and not five years earlier. The IESO said it had previously considered making the change to rate-regulated accounting when the Ontario Power Authority (OPA) and the IESO merged. The Committee asked if the Ministry of Energy directed the IESO to start using rate-regulated accounting. The IESO

responded that it was its own decision to adopt rate-regulated accounting. The Controller for the Province of Ontario noted earlier that she asked the IESO to consider whether or not rate-regulated accounting was appropriate accounting treatment when she first learnt that the IESO had a second set of market accounts that were not reflected in the IESO's financial statements. The President and CEO of the IESO stated that rate-regulated accounting has the added advantage of giving better visibility to the $17 billion from market activity that happens on an annual basis, and is in line with six of eight independent system operators across North America that also use rate-regulated accounting.

The IESO told the Committee that its financial statements are the purview and ownership of the management of the IESO, and that the IESO's policies are agreed to by their external advisors, KPMG. The Committee questioned if the IESO can have sole ownership and purview of its financial statements if it is a subordinate body to the Legislature. The Committee then asked if the Province's agencies, boards, commissions and crown corporations are independent from the Auditor General's considerations. The Ministry of Finance responded that these entities have their own governance and their own boards from which they need approval.

The IESO also indicated that PSAS neither explicitly permit nor prohibit the recognition, measurement, presentation, or disclosure of rate-regulated activities. The Auditor's report stated that "the silence of Canadian PSAS on rate-regulated accounting means that rate-regulated accounting is not permitted." As noted earlier, the Auditor's report added, "This view is and has been supported by many public-sector accounting experts in Canada including Auditors General across Canada, private accounting firms, and others, such as the recently retired Director of the Public Sector Accounting Standards Board, who have extensive experience in developing and applying Canadian PSAS."

The Committee pressed the IESO if it could follow the Auditor General's second recommendation to remove Market Accounts. The IESO noted there is a "disagreement" between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting is the most appropriate way of representing its financials. The audit noted that the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province's consolidated financial statements.

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

The Standing Committee on Public Accounts recommends that:

1. **Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.**

2. **The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.**

APPENDIX – DISSENTING OPINION OF THE MEMBERS OF THE PROGRESSIVE CONSERVATIVE PARTY

Dissenting Opinion of the Members of the Progressive Conservative Party.

The inclusion of a dissenting opinion in a majority report at Public Accounts Committee is a rare occurrence, and is normally only pursued as a symptomatic response to a failure of one or more parties to abide by the generally accepted principles that guide the committee to work effectively and in a non-partisan fashion.

The first of these principles is a clear understanding of the Auditor General's role, and a deference to the impartiality of their office. A core tenant of the Public Accounts Committee is that its members recognize that the opinions and recommendations put forward by the Auditor General are independent and reputable. Proper consideration is meant to be given in response to the Auditor General's findings, and any conflicting conclusions by the committee need to concretely justified and discussed openly.

The second principle is one of constraining partisanship, a concept where in members of the committee are strong and secure in their ability to be non-partisan, and able to collaboratively construct solutions and recommendations.

If one or both of these principles is not respected, than the integrity of the committee, and its reports, come in to question.

In the case of this report, the committee has not addressed the Auditor General's concerns in a manner that could be at all considered effective, particularly in regard to the issues arising from the Government's use of external advisors and accounting firms when developing accounting and financial structures and positions. Concern was raised in the Auditor's report on how the activities of these external advisors were not brought to the attention of their office until that information was specifically requested. These issues were identified as being related to other significant concerns in the report, including with those involving the IESO and the inappropriate accounting of market account assets and liabilities.

Recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:

- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;
- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

The implementation of effective recommendations such as these was frustrated by the government's lack of motivation or interest to engage in thoughtful discussion on these issues, which is contrary to the principles and objectives of the committee.

As such no other option was left but to officially state on the record, through a dissenting report, that due to partisanship throughout the committee process this report does not fulfil its responsibility to provide effective and non-partisan recommendations to the government.

FW_ SCOPA _ Chapter 3 Products.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA / Chapter 3 Products
Date:	February 8, 2018 3:57:11 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Draft.docx

Hi Guys –
Please fill out our section of the attached table and return by tomorrow morning. Was hoping we could look once I received IESO and OEB content, but I still don't have anything.

HC

Status Table_Ch 3 of AG AR_SCOPA_Draft_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Report of the Auditor General of Ontario
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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

FW_ SCOPA chapter 3 QA revisions.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA chapter 3 QA revisions
Date: March 5, 2018 4:27:15 PM
Attachments: MB_SCOPA Chapter 3 - FINAL.docx

Hi Guys –
Please review the OEB edits on page 3 and let me know if you're ok with these.

HC

From: Martine Band [mailto:Martine.Band@oeb.ca]
Sent: March 5, 2018 4:20 PM
To: Cox, Hilary (ENERGY); Neil Brodie
Cc: Mary Anne Aldred
Subject: RE: SCOPA chapter 3 QA revisions

Hi Hilary,

The attached has some edits in relation to 3 items (two of which are repeated in more than one place), all of which are offered for factual accuracy. The one that is likely not intuitive in that regard relates to references to a review of OEB authority regarding enforcement of the market rules. I don't really know the driver behind the inclusion of those references, and am not looking to pre-empt what the Ministry may want to examine in that regard. But I did feel that I should note that the OEB does have authority in relation to market participant non-compliance with the market rules, in case that affects anything on your end.

Happy to further explain this or the other edits if helpful.

Martine

Martine M. N. Band
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Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Direct Line: 416.440.8117
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Please note my email address has changed to Martine.Band@oeb.ca. Please update your address

book accordingly.

From: Cox, Hilary (ENERGY) [mailto:Hilary.Cox@ontario.ca]
Sent: Monday, March 5, 2018 2:56 PM
To: Martine Band <Martine.Band@oeb.ca>; Neil Brodie <Neil.Brodie@oeb.ca>
Cc: Mary Anne Aldred <MaryAnne.Aldred@oeb.ca>
Subject: SCOPA chapter 3 QA revisions

Hi Martine –
I understand you had made some edits to the QA package for chapter 3. Grateful if you can send those along at your earliest convenience.

Many thanks,

Hilary

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MB_SCOPA Chapter 3 - FINAL.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC ~~these~~ credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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FW_ SCOPA material.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Armstrong, Hillary (ENERGY)
Cc:	Nucciarone, Michael (ENERGY)
Subject:	FW: SCOPA material
Date:	January 18, 2018 6:20:00 PM
Attachments:	Binder for DM Pre-Briefing_January 19 2018.zip

From: Ue, Allison (TBS)
Sent: January 18, 2018 5:52 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>
Cc: Skoberne, Vivienne (TBS) <Vivienne.Skoberne@ontario.ca>; Nelson, Dane (TBS) <Dane.Nelson@ontario.ca>
Subject: SCOPA material

Hi Martin and Dave

For tomorrow's SCOPA briefing, the e-binder is attached. Please share this with folks that will be attending the meeting. I understand that our communications team has been working with their counterparts in your ministries. Feel free to invite them – I'll leave that up to you.

Let me know if you have any questions.

Thanks!
Allison

Binder for DM Pre-Briefing_January 19 2018.pdf

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Attachment 1. Cover Page (0 Bytes) cannot be converted to PDF format.

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Attachment 2. Table of Contents (0 Bytes) cannot be converted to PDF format.

Tab 1_Pre-Briefing Discussion Agenda.pdf

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Tab 2_Logistics and Format.pdf

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Tab 3_Strategic Approach.pdf

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Tab 4_Roles and Responsibilities.pdf

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Tab 5_DM Angus Opening Remarks Outline.pdf

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Tab 6_Questions and Answers Overview.pdf

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Tab 7_TBS Environmental Scan and Issues Overview.pdf

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Tab 8_Draft Briefing Binder Table of Contents.pdf

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Tab 9_Summary Status Table_Placeholder_To be circulated during meeting.pdf

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SCOPA Pre-Briefing Binder_Cover Page_Jan 19 2018.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

PRE-BRIEFING BINDER

January 19, 2018

SCOPA Pre-Briefing Binder_Table of Contents_20180119.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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Tab 7_____TBS Environmental Scan and Issues Overview

Tab 8_____Draft SCOPA Binder Table of Contents

Tab 9_____Summary Status Table Overview *(placeholder)*

SCOPA_Meeting Agenda_20180119.pdf

Communications Branch
Your Strategic Partner

AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

PRE-BRIEFING DISCUSSION

Date: Friday, January 19, 2018
Time: 4:00 p.m. – 5:00 p.m.
Location: TBS DMO Board Room 5th Floor Whitney Block
Attendees: TBS, MOF, MOE

Topic	Lead	Time
Introduction	TBS Deputy Minister	5 minutes
Overview • Schedule and format • Attendees • Strategic approach • Roles and responsibilities • DM Angus opening remarks outline • Questions and answers overview • Draft binder table of contents • Overview of additional materials	TBS Communications	25 minutes
Summary Status Table • Overview of draft table	Office of the Provincial Controller	15 minutes
Questions	All	15 minutes

1_SCOPA_Logistics Overview_20180119.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

DRAFT

- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

DRAFT

Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

DRAFT

Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

DRAFT

Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic for the Anti-Racism Secretariat, Critic for City of Ottawa Issues

DRAFT

Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles
Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

DRAFT

PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles
Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles
Member, Standing Committee on Public Accounts
Critic, Attorney General

MONTE KWINTER, MPP (LIB/YORK CENTRE)

Current Parliamentary Roles
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of International Trade
Chair of the Ontario Investment and Trade Advisory Council

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

2_SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

    - Explain, "I want to be absolutely precise and specific, so I will need to get back to you with the exact number"

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

   - Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

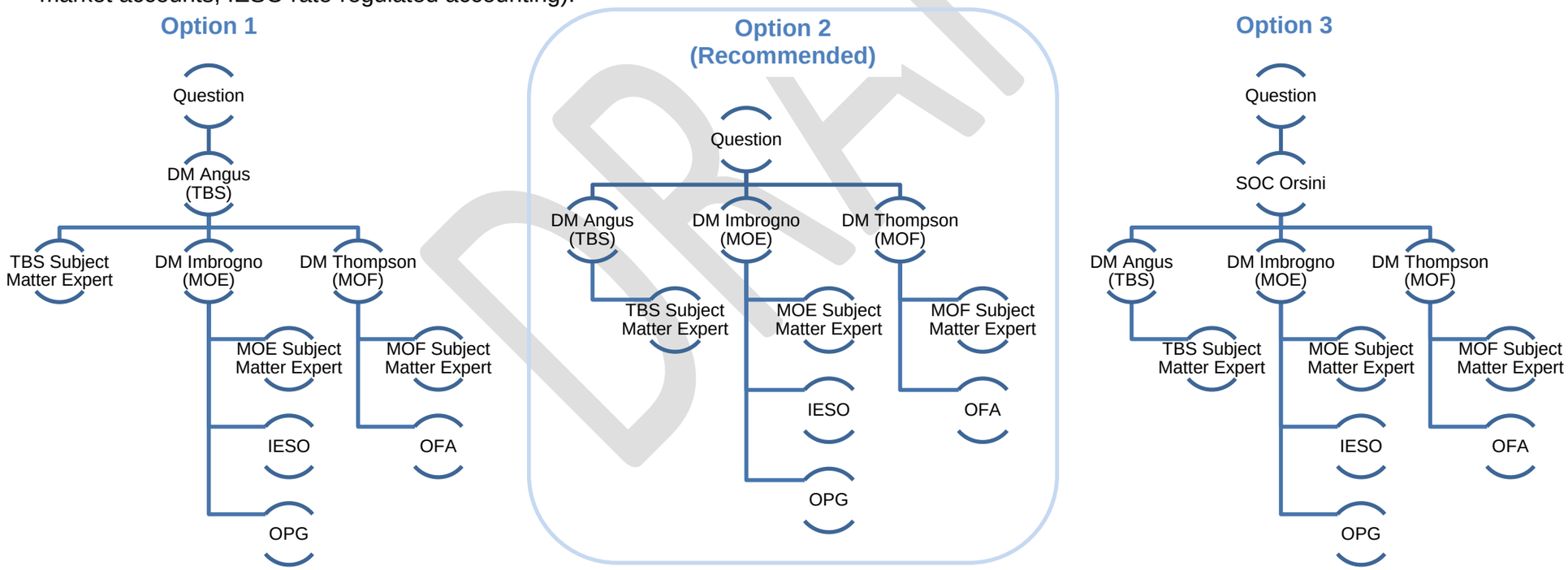
A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

SCOPA Strategic Approach_20180119.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report.
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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SCOPA_Swim Lanes_DRAFT_20180119.pdf

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #3 IESO Rate-Regulated Accounting				Governmnet decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Acocunting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Struture / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Struture
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting						OPG Accounting / Trust		
Rec #9 Arm's Length Trusts					Financing Structure	Financing Structure						
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Spefic ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations		Specific salaries			

SCOPA_TBS Deputy Remarks Outline_20180119.pdf

INTRODUCTORY REMARKS - OUTLINE

Secretary Orsini – Introduction (Optional)

- Good afternoon and thank you to members of the Committee
- The Standing Committee on Public Accounts plays an important role in providing legislative oversight and guidance.
- Role of the public servant: non-partisan nature of public service; duty to provide our best advice; accountability and transparency

Deputy Angus – Introduction

- Good afternoon and thank you
- I'd like to take a moment to introduce my colleagues who are sitting with me here today:
    - Scott Thompson, Deputy Minister of Finance
    - Serge Imrogno, Deputy Minister of Energy
    - Cindy Veinot, Assistant Deputy Minister and Provincial Controller
    - And, as many of you know, I am Helen Angus, Deputy Minister of the Treasury Board Secretariat.
- We also have representatives here from the Ontario Financing Authority, Ontario Power Generation, the Independent Electricity System Operator, and other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to provide information and answer your questions regarding the Committee's consideration of the Chapter 2 of the Auditor General's 2017 Annual Report on the Public Accounts of the Province.

Overview of Public Accounts

- Public Accounts presents the government's financial statements and gives a picture of how finances were managed over the last fiscal year.
- Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.
- PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

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Overview of Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency
- These changes include:
    - Accounting for hospitals, school boards and colleges.
    - Accounting for energy sector government business enterprises.
    - Accounting for the Independent Electricity System Operator (IESO) - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - Accounting for net pension assets of jointly sponsored pension plans - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Auditor General's 2017 Annual Report

- The government thanks the Office of the Auditor General for its recommendations.
- As I mentioned earlier, the Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- However, there are times when we disagree, and it is our role as public servants to continue our due diligence, act with impartiality, and provide our best advice.
- Our professional staff exercises judgment in applying accounting standards and, as necessary, consults with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.
- That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Management Response to the Auditor General's Recommendations

- The Auditor General's annual reports provide for an opportunity for conversation, and in response to the Auditor General's recommendations, the government provided a detailed response to each of the 10 recommendations.
- As requested by the Committee, we have provided a response to each recommendation in the Summary Status Table, which you now have in front of you.
- This table includes more detail than you may have previously seen in chapter two of the Annual Report.
- Each response, on which we would be pleased to provide further detail, outlines the process and rationale as to why the government chose to either continue or adopt changes to accounting treatments.

Updates on Progress – From the Summary Status Table

- *To be added – any key updates/highlights on progress from the Summary Status Table*

Conclusion

- I would like to emphasize that, in our role as public servants, it is our job to exercise due diligence and professional judgment, consult external advisors when needed, carefully consider options, and provide our best advice.
- It is for this reason that accounting changes were adopted in the 2016-17 Public Accounts, and it for this reason that Deputy Thompson, Provincial Controller Veinot, and myself as the Deputy of the Treasury Board Secretariat signed a statement of responsibility, reaffirming our responsibility for the objectivity and integrity of the Public Accounts of the Province.
- As always, we welcome the opportunity to provide the Committee with information and to answer any questions.
- Thank you.

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1_SCOPA_QA Overview_20180119.pdf

QUESTIONS & ANSWERS OVERVIEW

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pension asset accounting
- Pre-Election Report
- Province's debt burden

Long-Form Member Questions

1. Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?

3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

4. What are the plans to keep Ontario's credit rating in good standing?

5. What is Ontario's debt repayment plan?

6. How is Ontario planning to keep a balanced budget?

7. *MOE to add*

8. *MOE to add*

9. *MOE to add*

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Top Questions

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs, which are organized on the basis of Auditor General recommendation number.*

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2_QA Example Template v2.pdf

AG RECOMMENDATION #2: INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) MARKET ACCOUNTS

Deputy Minister High-level Response

- Thank you for your question.
- The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- I will now pass it over to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imrogno

  to provide more details.

Questions & Answers

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

3. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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SCOPA TBS Issues Overview_TBS_20180119.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2017-033 (Government) 1.All emails, memos and/or briefing materials responsive to the requests(s) made by the Auditor – General of Ontario and/or her office, in connection to her special report on the government's Fair Hydro Plan and *that were released* to the Auditor-General; and 2. All emails, memos and/or briefing materials responsive to the request(s) made by the A.G. of Ontario and/or her office, in connection to her special report on	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	January 19, 2018 (awaiting deposit)	This is a common request received by Cabinet Office, Energy, Finance and TBS. A common approach is being coordinated by IPA. Interim decision and fee estimate sent on December 20, 2017. Request is on hold until 50% deposit of estimate is received ($2,427.50). **Next Steps:** Await payment of deposit **(due**

the government's Fair Hydro Plan and *that have not been* released to the Auditor – General. 3. A summary of outside consultant and/or legal fees paid and/or payable by the government in relation to the preparation and/or rollout of the government's Fair Hydro Plan.			**January 19, 2018)**
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously

Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16,

	government will, as always, continue to follow the relevant legislation.	Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs	• Example of single use of legislated accounting (Public Accounts 15-16)

		were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

SCOPA Table of Contents_20180117.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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Tab 6_____Member Qs and Long-form Answers

Tab 7_____ Auditor General Reports
- 2017 Annual Report: Chapter 2
- 2017 Fair Hydro Plan

Tab 8_____ Reference Materials
- Government Response to Auditor General's 2017 Annual Report
- Public Accounts (Backgrounder and Technical Briefing Deck)
- Fair Hydro Plan
  - Energy's Technical Briefing Deck and Q+As
  - TBS-specific Q+As
- TBS House book Notes
  - Public Accounts
  - Fair Hydro Plan Accounting
  - Pension Asset Accounting
- MOF House book Notes
- Energy House book notes

DRAFT

FW_ SCOPA materials(1).pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Kitchen, Matthew (ENERGY)
Cc:	Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY); Edwards, Matthew (ENERGY); Syed, Usman (ENERGY)
Subject:	FW: SCOPA materials
Date:	February 26, 2018 5:30:34 PM
Attachments:	a. 2018-02-26 QA AFT_SCOPA_KSH v2.1.docx

Matt, revised QAs attached. SeE Yvonne's note below.

Matt E. – now moving on to matrix. We will have to review the AFT just-provided QAs either later tonight or first thing tomorrow.

Thanks,
Emma

From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 3:49 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Hi Emma,

QAs attached.

Of note, Kaili changed in this and the previous two document 'about 70' electricity distributors to '65'. I know she has LDCs in mind, but the about 70 leaves more room for the IPAs. Maybe you can note this in the email which goes over.

Happy to discuss.

Thanks,
Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,
Emma

From: Kitchen, Matthew (ENERGY)

Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs

QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

a. 2018-02-26 QA AFT_SCOPA_KSH v2.1.pdf

QAs for SCOPA

AFFORDABILITY FUND

1. Tough Q&As_____p.1
2. Direction and Administrative Considerations_____p.3
3. Program Considerations_____p.7
4. Trust Considerations_____p.12
5. Linkage Questions_____p.14

1. Tough Q&As

Why is the affordability fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the programs?

- -The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.
- -With approximately ~~70~~ 65 electricity distributors in the province, the Province entering into agreements with each distributor was not feasible. The Trust structure establishes an independent entity with expertise from social service agencies and the electricity distributor sector.
- Administering the Fund through an independent Trust, as opposed to the IESO or OEB, enables the Fund to focus on its mandate of helping those who are in need, but not eligible for low-income conservation programs.
- ~~Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust operates in a streamlined fashion flowing funds directly to electricity distributors.~~
- Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.
    - The Board of Trustees for the Trust includes representation from community ~~service~~ organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- ~~A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner to ensure beneficiaries receive….~~
- ~~Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.~~

Commented [KM(1]: Answer does not address this qustion. Please address 'why not have IESO deliver' - take from deleted q below?

Commented [ESPf2]: This was copied from the deleted response, but could suggest that the IESO or OEB have high admin costs

Commented [KM(3]: KSH questioned focusing on effective oversight/effieicncy as IESO could also do this. Please revise (note the tracked text is from KSH).

- Hydro One has played an important role in facilitating the establishment of the Trust, and continues to play an administrative support role to the Board of Trustees in the implementation of the Affordability Fund. \
    - Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.
- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

- In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:
    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides low-income support program.
- In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.
- The Save on Energy Home Assistance Program (HAP), delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (derived from Statistics Canada).
- Not all customers who are in need are eligible for HAP.
- On March 2, 2017, the government announced the establishment of an Affordability Fund as part of its Fair Hydro Plan.

- The Affordability Fund ~~will provide~~is providing energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is~~will~~ provid~~e~~ing similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measure~~s~~ under the Affordability Fund for homes that are electrically-heated.

- The level of energy burden calculated for the participating household ~~will~~ determines the level of home upgrades and total cost of measures it will be able to receive from the Affordability Fund.
    - Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
    - Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: range of $500-$15,000 per customer is confidential and has not been made public)***

If pressed:

- The AFT estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households. ***(NTD: number of households has not been made public)***.

- The Affordability Fund ~~is being~~was created to provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support. Not all customers who are in need are eligible for HAP.

Commented [KM(4]: Please double check to snure tense is correct and consistent throughout.

Commented [RO(5R4]: Alternatively, "provides"

- A Trust based centralized delivery model with electricity distributors and community services organizations as Trustees gives direct control and responsibility to those agents who can readily determine which electricity customers are most in need, for example those who are facing disconnection or do not qualify for the low-income electricity conservation program.

- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, ~~will~~ continues to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. DIRECTION AND ADMINISTRATIVE CONSIDERATIONS

Q. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

The Affordability Fund ~~will be~~was established through an independent Trust that ~~will be~~was provided with an upfront amount of $100 million. The Trust ~~will~~ is administering the Affordability Fund and ~~disburse~~ disbursing funding to electricity distributors. The principles outlined in the Trust Deed will ensure compliance with the Transfer Payment Accountability Directive and the value for money principle.

Given the scope of the Fund, a firm upfront financial commitment was required before implementation:

- An upfront commitment enables the Fund Administrator to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow.

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas.

- The Trust will help address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help ~~lower~~ customers energy ~~bills and put them~~get on a more sustainable path with their energy bills.

Q. Explain how payments to the Trust and electricity distributors are made.

The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

- The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
- On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

~~On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.~~

~~Table 1: Board of Trustees for the Affordability Fund Trust~~

~~Organization~~	~~Representative~~
~~United Way Ottawa~~	~~Michael Allen (President and CEO)~~
~~Neighbour to Neighbour Centre~~	~~Denise Arkell (Executive Director)~~
~~Thunder Bay Hydro~~	~~Tim Wilson (VP Customer and Information Services)~~
~~Hydro One~~	~~Warren Lister (VP Customer Service)~~
~~Alectra~~	~~Raegan Bond (VP Conservation and Demand Management)~~
~~Ministry of Energy~~	~~Kaili Sermat-Harding (Assistant Deputy Minister)~~

- ~~Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.~~

~~The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers. The Trust, guided by the TPA and the Declaration of~~

~~Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.~~

Commented [KM(6]: Answer is not relevant. Please revise to address the question.

The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, who in turn provide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support. Eligible customers are identified through an Energy Affordability Burden test, which is confirmed by electricity distributors. Eligible customers could include those in frequent bill arrears or facing disconnection.

The Affordability Fund is guided by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs, to ensure consistent access for LDCs across the province.

Q. What are the anticipated overhead requirements for the Affordability Fund?

The Trust will be responsible for establishing consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province. It is expected that administrative/overhead/staffing expenses of the Trust will be in accordance with the principles outlined in the Province's Cash Management Directive and Transfer Payment Accountability Directive.

Q. Why is there a need to spend in this particular area? On what basis did the Ministry determine the need for such a Fund?

To help electricity consumers across the province achieve cost savings, the government ~~has proposed a~~ presented the Fair Hydro Plan, which includeds~~s~~ establishing a Fund to provide support for energy efficiency improvements to help customers reduce future electricity bills and avoid future disconnections.

Commented [KM(7]: Update tense

The existing Home Assistance Program delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes. HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes, through the installation of LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars. Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

There are, however, many consumers who do not meet the mandated definition of low-income consumers under HAP. At the time that the Affordability Fund Trust was established, the Ministry was aware that LDCs had reported to the OEB that, at the end of 2015, there were over 560,000 electricity accounts in arrears, of which only 19,900 accounts (~3.6%) were eligible to receive the LEAP Emergency Financial Assistance.[1] LDCs have also reported to the OEB that in 2015, about 60,000 customers had their electricity service disconnected.

And these trends contined in 2016:

- Over 58,000 customers were disconnected in 2016.
- Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

~~Q. Why establish a Trust?~~

~~The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.~~

~~With approximately 70 electricity distributors in the province, entering into TPAs with each distributor is not feasible. The Trust structure establishes an independent entity with expertise from Hydro One, social service agencies and the electricity distributor sector.~~

~~It is expected that the Board of Trustees will represent a geographical cross section of the Province and thereby avoid any perception of favouritism. A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.~~

Q. Were~~Are~~ there other potential program recipients that could have delivered the program?

LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs. LDCs and other electricity distributors such as Independent Power Authorities, who are also eligible for the Fund, are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

[1] Source: Ontario Energy Board. Reported by LDCs to the OEB, but unverified.
LEAP EFA income thresholds for eligibility are similar to those in HAP. Those receiving LEAP EFA automatically income qualify for HAP.

This structure also leverages the expertise and existing resources of Hydro One, as well as ~~of potentially others in the LDC sector~~service delivery agents~~,~~ in conservation program delivery and customer marketing/outreach.

Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered suboptimal.

The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise or understanding of conservation and demand management programs, has no direct channel or ties to ~~LDCs~~electricity distributors, and has limited understanding of electricity service delivery. In addition, the Affordability Fund would not be a public-facing program, but rather would rely on electricity distributors ~~LDCs~~ to identify their respective eligible electricity customers and deliver the funding in accordance with the program. ~~An organization like the United Way lacks the capacity to deliver a Fund program, and it would take time to build that capacity.~~

~~**Q. Why can't the OEB and IESO administer the Affordability Fund?**~~

~~Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust would operate in a streamlined fashion flowing funds directly to electricity distributors.~~

~~The Trustees of the Trust are responsible for reviewing the applications to the Fund and authorizing the flow of funds. Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.~~

~~Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund. Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.~~

3. PROGRAM CONSIDERATIONS

Q. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, to provide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.

The Affordability Fund is guided by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs to ensure consistent access for LDCs across the province.

Q. What will customers receive? What are eligible energy efficiency measures under the Fund?

Eligible electricity customers could receive measures ranging on average from $500 to $15,000 per customer, at no or minimal cost. ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***

Measures are ~~expected to be~~ similar to those available in the Home Assistance Program, which include:

- energy-saving light bulbs (LEDs);
- power bars;
- energy efficient window ACs;
- refrigerators, freezers, dehumidifiers;
- low-flow showerheads, hot water blankets;
- pipe wrap and faucet aerators (in homes with electric water heating); and
- programmable thermostats, weather stripping, insulation (in homes with electric heating).

Additional AFT measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher. Cold climate air source heat pumps, which can cost from $7,000 to $13,000, are~~would~~ also ~~be~~ an eligible measure under the Fund for homes that are electrically-heated.

Commented [KM(8]: Update

These are the HAP measures.

Q. What is the eligibility criteria for the program?

The Fund is~~will~~ balanc~~e~~ing the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs and representatives of social service organizations, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

The level of support available to eligible households under the Affordability Fund program is based on the energy affordability burden.

Commented [KM(9]: Add a separate QA directly below on What is this EA burden and how it works.

Q. What is the energy affordability burden?

All Fund beneficiaries will be members of households whose electricity costs place a strain on the family. This strain is captured in a metric known as the Electricity Affordability Burden (EAB).

The EAB is calculated by dividing the total electricity charges by the net household income~~is is the ratio of the utility 'asked to pay amount' divided by the 'net household income'~~. This total electricity charges include the installment and fees expected of the account holder over the period under consideration. Installment payments, bills, and fees are assessed over the same period as the net household income.

EAB = (Electricity Bills + Installment Payment + Fees) / Net Household Income

Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

Q. Would tenants be eligible?

Tenants who pay their electricity bills could be among the eligible customers identified by ~~LDCs~~ distributors as needing help. The Affordability Fund is~~would~~ targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills. Eligible customers will be identified by ~~LDCs~~ distributors and could include those in frequent arrears or facing disconnection.

Q. How soon will eligible customers be able to start benefiting from the Fund?

Eligible customers have already begun receiving energy efficiency measures, and customers who have applied are expected to begin receiving funds early this year. ~~The Trust operates in a streamlined fashion flowing funds directly to electricity distributors. Interested electricity distributors apply to the Affordability Fund and are will be responsible to deliver the program to those customers they have identified as eligible. The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program. Eligible customers have already begun receiving energy efficiency measures. .~~

Q. How much can a customer who takes advantage of the Fund expect to save?

Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home. Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year. In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

Q. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid. The Trust is~~We are~~ open to feedback at this time on access by customers served by IPAs and remote First Nation communities.

Commented [KM(10]: This should be the Trust and not 'we' (the governemnt)

Commented [RO(11R10]: Resolved

Q. How much funding will each electricity distributor or LDC get?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province.

The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to about 65~~70~~ electricity distributors.

In summer 2017, AFT engaged with electricity distributors, IESO and OEB, and social service sector to design funding criteria and processes, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

Q. Will the program be delivered province-wide?

Yes, the program will be delivered province-wide.

Commented [KM(12]: add text on how it will be deliverd province-wide (if possible)

The Affordability Fund Trust is accessible to all electricity distributors in Ontario, to provide energy efficiency upgrades to eligible customers. Where a distributor cannot or does not wish to provide the program, Hydro One will deliver in this service territory on behalf of the Trust.

To be eligible, the residence must be located in the Province of Ontario and be used exclusively for residential occupancy or be a multi-unit residence, with the Beneficiary being responsible for the direct payment of their electricity usage and costs.

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. For example, the AFT has developed three levels of home upgrades and associated spending caps, to ensure consistency across the Province.

- Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
- Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
- Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

~~The Affordability Fund Trust is accessible to electricity distributors to provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs (HAP), and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based~~

~~on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.~~

Q. How will the Affordability Fund program be marketed?

On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. This announcement built a narrative that leverages announcements on the Fair Hydro Plan and its elements, helping to lower electricity costs across the province. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

The Affordability Fund Trust has developed a communication strategy, including marketing and outreach activities. It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers.. Eligible customers will be identified by electricity distributors.

Q. How will you evaluate the success of the Affordability Fund?

Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements, including:

- Amounts disbursed by the AFT to Electricity Distributors, and in aggregate.
- Total Affordability Fund investment income earned and accrued to date.
- Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor.
- Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT.
- Electricity Distributor and customer feedback and lessons learned.

~~**Q. Identify the risks that would prevent the program from achieving its objectives.**~~

~~Not all customers in need will actively seek help. For example, there are those electricity customers who are not low-income but who struggle to pay their electricity bills and opt to do so in place of other necessities. These customers may not yet be on the radar of an LDC's collections department, for example.~~

~~How quickly and where funds will be distributed depends on the processes established by the Trust and the time that it takes individual LDCs to prepare for delivery of the Affordability Fund program.~~

~~LDCs note that some customers in arrears may be "gaming the system" and not truly in need. LDCs know their customers best and are best positioned to identify customers in need, based on billing history and past customer relations.~~

~~There is some complexity in the market and potential customer confusion due to the availability of other energy support and energy conservation programs (Home Assistance Program, Ontario Electricity Support Program, Low-Income Energy Assistance – Emergency Financial Assistance, Enbridge and Union Gas Home Winterproofing and Home Weatherization programs). Social service agencies play an important role for low-income customers, in helping navigate this landscape of these and other social assistance programs.~~

~~Additionally, the AFT and IESO are working on aligning the Affordability Fund and Home Assistance Program. Beginning January 1, 2018, the HAP undergoing enhancements. As directed by the Ministry, the IESO is centrally delivering HAP to further improve the impact and availability of conservation programs that help low-income customers.~~

Q. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

4. TRUST CONSIDERATIONS

Q. How much control does the Province or Hydro One have over the Trust?

The Affordability Fund Trust has been established as a non-controlled independent Trust, to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements. The Trust is undertaking its duties on the basis of principles and guidance in the TPA between the ministry and the Trust, and the Declaration of Trust, established by the Province. Trustees have discretion on how they implement the program.

The Trust structure leverages the expertise of the electricity and social assistance sectors. The composition of the Board of Trustees represents a geographical cross section of the Province and has been selected based on experience in managing funds and experience in low income program delivery and oversight.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The Ministry of Energy is a non-voting Trustee, and sits on the Board of Trustees as an observer.

~~The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor.~~ The Trust, guided by the TPA and the Declaration of Trust, is~~will~~ distributing~~e~~ funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Q. What accountability and reporting structures ~~will be~~are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

The ~~current~~ TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectations of the Trust and the Trustees, including the delegation of program delivery to ~~between the~~that ~~Trustees and~~ electricity distributors. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

Commented [KM(13]: incomplete sentence

Commented [RO(14R13]: Resolved

5. LINKAGE QUESTIONS

Q. How will the spending augment existing rate mitigation and conservation initiatives?

Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

To help electricity consumers across the province achieve cost savings, the government is implementing a Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

The Affordability Fund will target those customers who do not qualify for low-income conservation programs (e.g. HAP) and who cannot undertake energy efficiency upgrades without support. It is expected that many LDCs will leverage past or existing contracts with organizations delivering the HAP).

Q. How will the programs compare with the existing Home Assistance Program?

The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund will provide similar measures to the HAP program, such as:

- Energy-saving light bulbs (LEDs)
- Power bars
- Energy-efficient window air conditioners
- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Additional AFT measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher. Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from the Global Adjustment/electricity rates.

Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure. Eligibility for the Affordability Fund is based on the energy affordability burden. This is the ratio of the utility 'asked to pay amount' divided by the 'net household income'. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

It is expected that LDCs will leverage past or existing contracts with organizations delivering the HAP.

Q. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

Q. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

Commented [KM(15]: is this tense correct?

Response: Technically yes, since the OESP is still feeding off of the balance of funding available in the OEB's variance account. Once this runs out, the shift to tax base will be complete.

A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

Q. What happens to unspent money?

It is expected that the funds through the Fund will be deployed within a year or two of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustee shall identify the Residual Beneficiary, or if more than one the Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

Q. Does the Ministry have the ability to claw-back funds?

The TPA includes claw-back provisions to recover funds were not used for the intended purposes.

FW_ SCOPA materials_1.pdf

From:	Syed, Usman (ENERGY)
To:	Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc:	Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject:	FW: SCOPA materials
Date:	February 23, 2018 3:15:22 PM
Attachments:	2018-02-22 QA AFT_SCOPA_Clean.docx 2018-02-23 TOP ISSUES AND ESTIMATES AFT_SCOPA_Clean.docx 2018-02-22 NUMBERS AT A GLANCE AFT_SCOPA.docx 2018-02-22 QA AFT_SCOPA tracked.docx 2018-02-23 TOP ISSUES AND ESTIMATES AFT_SCOPA tracked.docx

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Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs

QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

2018-02-22 QA AFT_SCOPA_Clean.pdf

QAs for SCOPA

AFFORDABILITY FUND

Tough Q&As

Why is the affordability fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the programs?

- The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.
- With approximately 70 electricity distributors in the province, the Province entering into agreements with each distributor was not feasible. The Trust structure establishes an independent entity with expertise from social service agencies and the electricity distributor sector.
- The Board of Trustees for the Trust includes representation from community service organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.

Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

- In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:
    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides low-income support program.
- In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation

programs.

- The Save on Energy Home Assistance Program (HAP), delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (derived from Statistics Canada).

- Not all customers who are in need are eligible for HAP.

- On March 2, 2017, the government announced the establishment of an Affordability Fund as part of its Fair Hydro Plan.

- The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund will provide similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

- The level of energy burden calculated for the participating household will determine the level of home upgrades and total cost of measures it will be able to receive from the Affordability Fund.
    - Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
    - Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps).

If pressed:

- The AFT estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households.

- The Affordability Fund is being created to provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support. Not all customers who are in need are eligible for HAP.

- A Trust based centralized delivery model with electricity distributors and community services organizations as Trustees gives direct control and responsibility to those agents who can readily determine which electricity customers are most in need, for example those who are facing disconnection or do not qualify for the low-income electricity conservation program.

- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

DIRECTION AND ADMINISTRATIVE CONSIDERATIONS

Q. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

The Affordability Fund will be established through an independent Trust that will be provided with an upfront amount of $100 million. The Trust will administer the Affordability Fund and disburse funding to electricity distributors. The principles outlined in the Trust Deed will ensure compliance with the Transfer Payment Accountability Directive and the value for money principle.

Given the scope of the Fund, a firm upfront financial commitment was required before implementation:

- An upfront commitment enables the Fund Administrator to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow.

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas.

- The Trust will help address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help lower customer energy bills and put them on a more sustainable path.

Q. Explain how payments to the Trust and electricity distributors are made.

The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

- The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
- On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Q. What are the anticipated overhead requirements for the Affordability Fund?

The Trust will be responsible for establishing consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province. It is expected that administrative/overhead/staffing expenses of the Trust will be in accordance with the principles outlined in the Province's Cash Management Directive and Transfer Payment Accountability Directive.

Q. Why is there a need to spend in this particular area? On what basis did the Ministry determine the need for such a Fund?

To help electricity consumers across the province achieve cost savings, the government has proposed a Fair Hydro Plan, which includes establishing a Fund to provide support for energy efficiency improvements to help customers reduce future electricity bills and avoid future disconnections.

The existing Home Assistance Program delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes. HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes, through the installation of LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars. Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

There are, however, many consumers who do not meet the mandated definition of low-income consumers under HAP. LDCs reported to the OEB that, at the end of 2015,

there were over 560,000 electricity accounts in arrears, of which only 19,900 accounts (~3.6%) were eligible to receive the LEAP Emergency Financial Assistance.[1] LDCs have also reported to the OEB that in 2015, about 60,000 customers had their electricity service disconnected.

Q. Why establish a Trust?

The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.

With approximately 70 electricity distributors in the province, entering into TPAs with each distributor is not feasible. The Trust structure establishes an independent entity with expertise from Hydro One, social service agencies and the electricity distributor sector.

It is expected that the Board of Trustees will represent a geographical cross section of the Province and thereby avoid any perception of favouritism. A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.

Q. Are there other potential program recipients that could deliver the program?

LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs. LDCs are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

This structure also leverages the expertise and existing resources of Hydro One, as well as of potentially others in the LDC sector, in conservation program delivery and customer marketing/outreach.

Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered suboptimal.

The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise or understanding of conservation and demand management programs, has no direct channel or ties to LDCs, and has limited understanding of electricity service delivery. In addition, the Affordability Fund would not be a public-facing program, but

[1] Source: Ontario Energy Board. Reported by LDCs to the OEB, but unverified.
LEAP EFA income thresholds for eligibility are similar to those in HAP. Those receiving LEAP EFA automatically income qualify for HAP.

rather would rely on LDCs to identify their respective eligible electricity customers and deliver the funding in accordance with the program. An organization like the United Way lacks the capacity to deliver a Fund program, and it would take time to build that capacity.

Q. Why can't the OEB and IESO administer the Affordability Fund?

Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust would operate in a streamlined fashion flowing funds directly to electricity distributors.

The Trustees of the Trust are responsible for reviewing the applications to the Fund and authorizing the flow of funds. Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.

Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund. Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.

PROGRAM CONSIDERATIONS

Q. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, toprovide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.

The Affordability Fund is guided by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs to ensure consistent access for LDCs across the province.

Q. What will customers receive? What are eligible energy efficiency measures under the Fund?

Eligible electricity customers could receive measures ranging on average from $500 to $15,000 per customer, at no or minimal cost. Measures are expected to be similar to those available in the Home Assistance Program, which include:

Commented [DTY(1]: AFT Program Protocol v1.1 page 16. These numbers are confidential/not for public.

- energy-saving light bulbs (LEDs);
- power bars;
- energy efficient window ACs;
- refrigerators, freezers, dehumidifiers;
- low-flow showerheads, hot water blankets;
- pipe wrap and faucet aerators (in homes with electric water heating); and
- programmable thermostats, weather stripping, insulation (in homes with electric heating).

Cold climate air source heat pumps, which can cost from $7,000 to $13,000, would also be an eligible measure under the Fund for homes that are electrically-heated.

Q. What is the eligibility criteria for the program?

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs and representatives of social service organizations, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

The level of support available to eligible households under the Affordability Fund program is based on the energy affordability burden. This is the ratio of the utility ‘asked to pay amount’ divided by the ‘net household income’. Electricity distributors know their

customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

Q. Would tenants be eligible?

Tenants who pay their electricity bills could be among the eligible customers identified by LDCs as needing help. The Affordability Fund would target those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills. Eligible customers will be identified by LDCs and could include those in frequent arrears or facing disconnection.

Q. How soon will eligible customers be able to start benefiting from the Fund?

The Trust operates in a streamlined fashion flowing funds directly to electricity distributors. Interested electricity distributors apply to the Affordability Fund and will be responsible to deliver the program to those customers they have identified as eligible. The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program. Eligible customers have already begun receiving energy efficiency measures. .

Q. How much can a customer who takes advantage of the Fund expect to save?

Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home. Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year. In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

Q. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid. We are open to feedback at this time on access by customers served by IPAs and remote First Nation communities.

Q. How much funding will each electricity distributor or LDC get?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province.

The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to about 70 electricity distributors.

In summer 2017, AFT engaged with electricity distributors, IESO and OEB, and social service sector to design funding criteria and processes, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

Q. Will the program be delivered province-wide?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province.

The Affordability Fund Trust is accessible to electricity distributors to provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs (HAP), and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.

Q. How will the Affordability Fund program be marketed?

On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. This announcement built a narrative that leverages announcements on the Fair Hydro Plan and its elements, helping to lower electricity costs across the province. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

The Affordability Fund Trust has developed a communication strategy, including marketing and outreach activities. It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers.. Eligible customers will be identified by electricity distributors.

Q. How will you evaluate the success of the Affordability Fund?

Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation.

The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements, including:

- Amounts disbursed by the AFT to Electricity Distributors, and in aggregate.
- Total Affordability Fund investment income earned and accrued to date.
- Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor.
- Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT.
- Electricity Distributor and customer feedback and lessons learned.

Q. Identify the risks that would prevent the program from achieving its objectives.

Not all customers in need will actively seek help. For example, there are those electricity customers who are not low-income but who struggle to pay their electricity bills and opt to do so in place of other necessities. These customers may not yet be on the radar of an LDC's collections department, for example.

How quickly and where funds will be distributed depends on the processes established by the Trust and the time that it takes individual LDCs to prepare for delivery of the Affordability Fund program.

LDCs note that some customers in arrears may be "gaming the system" and not truly in need. LDCs know their customers best and are best positioned to identify customers in need, based on billing history and past customer relations.

There is some complexity in the market and potential customer confusion due to the availability of other energy support and energy conservation programs (Home Assistance Program, Ontario Electricity Support Program, Low-Income Energy Assistance – Emergency Financial Assistance, Enbridge and Union Gas Home Winterproofing and Home Weatherization programs). Social service agencies play an important role for low-income customers, in helping navigate this landscape of these and other social assistance programs.

Additionally, the AFT and IESO are working on aligning the Affordability Fund and Home Assistance Program. Beginning January 1, 2018, the HAP undergoing enhancements. As directed by the Ministry, the IESO is centrally delivering HAP to further improve the impact and availability of conservation programs that help low-income customers.

Q. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

TRUST CONSIDERATIONS

Q. How much control does the Province or Hydro One have over the Trust?

The Affordability Fund Trust has been established as a non-controlled independent Trust, to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements. The Trust is undertaking its duties on the basis of principles and guidance in the TPA between the ministry and the Trust, and the Declaration of Trust, established by the Province. Trustees have discretion on how they implement the program.

The Trust structure leverages the expertise of the electricity and social assistance sectors. The composition of the Board of Trustees represents a geographical cross section of the Province and has been selected based on experience in managing funds and experience in low income program delivery and oversight.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The Ministry of Energy is a non-voting Trustee, and sits on the Board of Trustees as an observer.

The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Q. What accountability and reporting structures will be put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

LINKAGE QUESTIONS

Q. How will the spending augment existing rate mitigation and conservation initiatives?

Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

To help electricity consumers across the province achieve cost savings, the government is implementing a Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

The Affordability Fund will target those customers who do not qualify for low-income conservation programs (e.g. HAP) and who cannot undertake energy efficiency upgrades without support. It is expected that many LDCs will leverage past or existing contracts with organizations delivering the HAP).

Q. How will the programs compare with the existing Home Assistance Program?

The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund will provide similar measures to the HAP program, such as:

- Energy-saving light bulbs (LEDs)
- Power bars
- Energy-efficient window air conditioners
- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from the Global Adjustment/electricity rates.

Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure. Eligibility for the Affordability Fund is based on the energy affordability burden. This is the ratio of the utility ‘asked to pay amount’ divided by the ‘net household income’. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

It is expected that LDCs will leverage past or existing contracts with organizations delivering the HAP.

Q. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

Q. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

Q. What happens to unspent money?

It is expected that the funds through the Fund will be deployed within a year or two of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustee shall identify the Residual Beneficiary, or if more than one the Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on

those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

Q. Does the Ministry have the ability to claw-back funds?

The TPA includes claw-back provisions to recover funds were not used for the intended purposes.

2018-02-23 TOP ISSUES AND ESTIMATES AFT_SCOPA.pdf

SCOPA 2018 AFT NOTE

DM's Top Issues on Affordability Fund

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of social service organizations, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately more than 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.
- The table below outlines the Board of Trustees for the Affordability Fund Trust

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

ADM Backpocket on AFT

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
    - Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
    - Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.
- Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback..

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), at no or minimal cost, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $260 to over $6,000 per customer (including air source heat pumps).

- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households.

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ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.
- The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY had been minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.
- ENERGY's first report back to TB/MBC through the PRRT process was in October 2018 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.
    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

2018-02-22 NUMBERS AT A GLANCE AFT_SCOPA.pdf

NUMBERS AT A GLANCE – AFT

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23~~8~~, 2018, over ~~approximately 3,500~~ 4,2~~0~~80 applications had been received. Eligible applicants are expected to start receiving benefits in the coming months, which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- As of February ~~8~~20, 2018, ~~56~~60 (of about 70) electricity distributors have indicated an interest in delivering the Affordability Fund program, and ~~17~~36% of the $100M budget has been allocated.

The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 23~~08~~-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)~~January 2018 – Monthly Total~~	~~3,504~~1,186
~~January 2018 –~~ Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	~~166~~286
~~January 2018 – Awaiting Trusted Conversation~~Sent to LDCs or Ready to be Sent to LDCs	~~794~~2,810
~~January 2018 – Delivered to Utility~~	~~2,411~~

Metrics As of Feb 20, 2018	**Amount**
Number of Participating LDCs	~~56~~60

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~~Number of Participating Customers~~	~~5,055,000~~
Number of LDC Implementation Agreements Signed	~~30~~24
~~Budget Allocations Received~~	~~27~~
~~Up-Front Allocations Posted~~	~~$3,680,000 (15)~~
~~Dollars Allocated Overall~~	~~$14,700,400~~
Percent of $100M Allocated ~~($88.7M)~~	~~17~~36%

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AFT LDC BUDGET ALLOCATION

LDC	**Allocation**
Chapleau PUC	$ 246,280
Entegrus Inc.	$ 633,680
Erie Thames Power	$ 465,000
Espanola Regional Hydro	$ 599,040
Greater Sudbury Power	$ 2,429,570
Hearst Power	$ 252,520
Kitchener-Wilmot Hydro	$ 1,240,900
Midland PUC	$ 547,260
Newmarket-Tay Power Distribution	$ 1,503,860
North Bay Hydro	$ 1,220,610
Northern Ontario Wires	$ 994,740

PUC Distribution	$ 2,473,990
Renfrew Hydro	$ 550,500
Welland Hydro	$ 801,936
Westario Power Inc.	$ 740,500

AFT 2018 BUDGET

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

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QAs for SCOPA

AFFORDABILITY FUND

Tough Q&As

Why is the affordability fund being designed and administered by an independent trust? Why not have the IESO, for example~~,e~~ deliver the programs?

- The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.
- With approximately 70 electricity distributors in the province, the Province entering into agreements with each distributor was not feasible. The Trust structure establishes an independent entity with expertise from social service~~low-income~~ agencies and the electricity distributor~~LDC~~ sector.
- The Board of Trustees for the Trust includes representation from community service organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.

~~(End)~~

Commented [DTY(1]: Electricity distributors encompasses the Independent Power Authorities; LDCs does not.

Is there a preference to keep this simple and refer to LDCs only?

Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

- In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:
    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides low-income support program.
- In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to

assist struggling customers who cannot qualify for low-income conservation programs.

- The Save on Energy Home Assistance Program (HAP), delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (derived from Statistics Canada).

- Not all customers who are in need are eligible for HAP.

- On March 2, 2017, the government announced the establishment of an Affordability Fund as part of its Fair Hydro Plan.

- The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are ~~otherwise~~ unable to undertake~~make~~ energy efficiency improvements without support~~financial assistance~~.

- The Affordability Fund will~~is expected to~~ provide similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps ~~could~~ are also ~~be~~ an eligible measures under the Affordability Fund for homes that are electrically-heated.

- The level of energy burden calculated for the participating household will determine the level of home upgrades and total cost of measures it will be able to receive from the Affordability Fund.
    - Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
    - Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500~~260~~ to over $15~~6~~,000 per customer (including air source heat pumps).

If pressed:

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Commented [SU(3]: add a bullet describing the different levels of measures (1, 2, 3) and examples for each.

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Response: accurate, although amounts confidential

- The AFT~~current draft program design, it is~~ estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households.

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- The Affordability Fund is being created to provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support. Not all customers who are in need are eligible for HAP.

- A Trust based centralized delivery model with electricity distributors and community services organizations as Trustees gives direct control and responsibility to those agents who can readily determine which electricity customers are most in need, for example those who are facing disconnection or do not qualify for the low-income electricity conservation program.

- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

~~(End)~~

DIRECTION AND ADMINISTRATIVE CONSIDERATIONS

Q. Why is there a need to provide ~~the entire~~ $1~~2~~00 million upfront? Couldn't the funding be provided in phases?

The Affordability Fund will be established through an independent Trust that will be provided with an upfront amount of $~~2~~100 million. The Trust will administer the Affordability Fund and disburse funding to ~~LDCs~~electricity distributors. The principles outlined in the Trust Deed will ensure compliance with the Transfer Payment Accountability Directive and the value for money principle.

Given the scope of the Fund, a firm upfront financial commitment ~~is~~ was required before implementation:

- An upfront commitment ~~will~~ enables the Fund Administrator to disburse funding to ~~LDCs~~ electricity distributors as applications are received, without the risk of delays due to insufficient cash flow.

- It ~~will~~ also allows ~~LDCs~~ electricity distributors to apply for funding and initiate planning and implementation for the year ahead. ~~LDCs~~ Electricity distributors will

need to contract with energy efficiency delivery agents to deliver the programs within their service areas.

- The Trust will help address an *immediate need* – for ~~LDCs~~ electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help lower customer energy bills and put them on a more sustainable path.

Q. Explain how payments to ~~Hydro One,~~ the Trust and electricity distributors~~LDCs~~ ~~would~~ are~~be~~ made~~administered~~.

~~The Ministry of Energy would enter into a TPA with Hydro One. As part of the TPA, funds would be dispensed to Hydro One (prior to March 31, 2017)~~

~~The TPA would include terms for Hydro One to establish a non-controlled independent Trust to administer and distribute funds to LDCs across the province. Funds would be distributed on the basis of principles established by the Province and implemented with the discretion of the Trustees. It is expected that Hydro One would transfer funds to the Trust prior to March 31, 2017.~~

~~The Trust would distribute funds to LDCs across the province including, Hydro One. Administration of payments to LDCs will be considered as part of the TPA.~~

The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

- The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
- On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative

United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.
- The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Q. What are the anticipated overhead requirements for the Affordability Fund?

The Trust will be responsible for establishing consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province. It is expected that administrative/overhead/staffing expenses of the Trust will be in accordance with the principles outlined in the Province's Cash Management Directive and Transfer Payment Accountability Directive.

Q. Why is there a need to spend in this particular area? On what basis did the Ministry determine the need for such a Fund?

To help electricity consumers across the province achieve cost savings, the government has proposed a Fair Hydro Plan, which includes establishing a Fund to provide support

for energy efficiency improvements to help customers reduce future electricity bills and avoid ~~customer~~ future disconnections.

The existing Home Assistance Program delivered ~~by LDCs and~~ the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes. HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes, through the installation of LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars. Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

There are, however, many consumers who do not meet the mandated definition of low-income consumers under HAP. LDCs reported to the OEB that, at the end of 2015, there were over 560,000 electricity accounts in arrears, of which only 19,900 accounts (~3.6%) were eligible to receive the LEAP Emergency Financial Assistance.[1] LDCs have also reported to the OEB that in 2015, about 60,000 customers had their electricity service disconnected.

Q. Why establish a Trust?

The Trust structure ~~will~~ provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors~~LDCs~~.

With approximately 70 electricity distributors~~LDCs~~ in the province, entering into TPAs with each distributor~~LDC~~ is not feasible. The Trust structure establishes an independent entity with expertise from Hydro One, social service agencies and the ~~and potentially others in the~~electricity distributor ~~LDC~~ sector.

It is expected that the Board of Trustees will represent a geographical cross section of the Province and thereby avoid any perception of favouritism. A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.

Q. Are there other potential program recipients that could deliver the program?

LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs. LDCs are also best

[1] Source: Ontario Energy Board. Reported by LDCs to the OEB, but unverified.
LEAP EFA income thresholds for eligibility are similar to those in HAP. Those receiving LEAP EFA automatically income qualify for HAP.

positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

This structure also leverages the expertise and existing resources of Hydro One, as well as of potentially others in the LDC sector, in conservation program delivery and customer marketing/outreach.

Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered suboptimal.

The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise or understanding of conservation and demand management programs, has no direct channel or ties to LDCs, and has limited understanding of electricity service delivery. In addition, the Affordability Fund would not be a public-facing program, but rather would rely on LDCs to identify their respective eligible electricity customers and deliver the funding in accordance with the program. An organization like the United Way lacks the capacity to deliver a Fund program, and it would take time to build that capacity.

Q. Why can't the OEB and IESO administer the Affordability Fund?

~~Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.~~

Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust would operate in a streamlined fashion flowing funds directly to electricity distributors~~LDCs~~.

The Trustees of the Trust are~~would be~~ responsible for reviewing the applications to the Fund and authorizing the flow of funds. Having a broad representation of electricity distributors and social service sector~~LDCs~~ on its Board, ~~will~~ enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.

Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund. Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.

PROGRAM CONSIDERATIONS

Q. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

The Affordability Fund, administered by an independent Trust, is ~~would be~~ accessible to electricity distributors~~LDCs~~, to ~~only~~ provide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support~~and would target those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills~~. Eligible customers will be identified by electricity distributors~~LDCs~~ (i.e. based on a calculation of the energy affordability burden~~entitlement based~~) and could include those in frequent arrears or facing disconnection.

The Affordability Fund is guided~~will abide~~ by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs to ensure consistent access for LDCs across the province.

~~LDCs would apply to the Affordability Fund and use funding from the Fund to offer energy efficiency measures to those customers that meet the targeted eligibility criteria. It is expected that many LDCs would leverage existing contracts with organizations delivering the Save on Energy Home Assistance Program, which would lead to a quicker launch than contracting with new entities.~~

Q. What will~~ould~~ customers receive? What are eligible energy efficiency measures under the Fund?

Eligible electricity customers could receive measures ranging on average from $~~3,000~~500 to $15,000 per customer, at no or minimal cost. Measures are expected to be similar to those available in the Home Assistance Program, which include:

- energy-saving light bulbs (LEDs);
- power bars;
- energy efficient window ACs;
- refrigerators, freezers, dehumidifiers;
- low-flow showerheads, hot water blankets;
- pipe wrap and faucet aerators (in homes with electric water heating); and

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- programmable thermostats, weather stripping, insulation (in homes with electric heating).

Cold climate air source heat pumps, which can cost from $7,000 to $13,000, would also be an eligible measure under the Fund for homes that are electrically-heated.

Q. What is~~would be~~ the eligibility criteria for the program?

The Fund will~~would~~ balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

~~The following factors and metrics would be used by the Trust administrator to determine customer eligibility for programs delivered through the Fund, including:~~

- ~~Do not qualify for low-income conservation programs, but the LDC has reasonable evidence to indicate that they require financial assistance to pay for energy efficiency measures;~~
- ~~May have triggered action by an LDC collection department (e.g., customers are in arrears, have been placed on one or more payment plans, are due to be disconnected, etc.);~~
- ~~Priority could be given to eligible customers in electrically-heated homes, or other unique circumstances.~~
- ~~Other factors as agreed by the Trustees.~~

Over summer 2017, the ~~It is expected that the~~ Trust sought~~would seek~~ input from the OEB and stakeholders, including LDCs and representatives of social service~~low income~~ organizations, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

The level of support available to eligible households under the Affordability Fund program is based on the energy affordability burden. This is the ratio of the utility 'asked to pay amount' divided by the 'net household income'. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

Q. Would tenants be eligible?

Tenants who pay their electricity bills could be among the eligible customers identified by LDCs as needing help. The Affordability Fund would target those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills. Eligible customers will be identified by LDCs and could include those in frequent arrears or facing disconnection.

Q. How soon will eligible customers be able to start benefiting from the Fund?

The Trust ~~would~~ operates in a streamlined fashion flowing funds directly to electricity distributors~~LDCs~~. Interested electricity distributors ~~LDCs will~~ apply to the Affordability Fund and will be responsible to deliver the program to those customers they have identified as eligible. The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program. Eligible customers have already begun receiving energy efficiency measures. ~~It is expected that eligible customers could start benefitting from the Fund as early as summer~~.

Q. How much can a customer who takes advantage of the Fund expect to save?

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Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home. Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year. In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

Q. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

The Affordability Fund is overseen and ~~would be~~ administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province~~LDCs~~. The intention is to help those who are connected to the provincial electricity grid. We are open to feedback at this time on access by customers served by IPAs and remote First Nation communities.

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Q. How much funding will each electricity distributor or LDC get?

The Affordability Fund is overseen and ~~would be~~ administered by an independent Trust to ensure equitable and fair access for electricity distributors ~~LDCs~~ across the province.

The Trust structure ~~will~~ provides an effective solution to an otherwise challenging problem of distributing dollars to about 70 electricity distributors~~LDCs~~.

In summer 2017, AFT engaged with electricity distributors, IESO and OEB, and social service sector to design funding criteria and processes~~It is expected that the Trust would seek input from the OEB and stakeholders, including LDCs and representatives of low income organizations, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers~~, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

Q. Will the program be delivered province-wide?

The Affordability Fund is overseen and ~~would be~~ administered by an independent Trust to ensure equitable and fair access for electricity distributors~~LDCs~~ across the province. ~~The Trust would include Hydro One, and potentially the government and from other LDCs across the province and other independent Trustees.~~

The Affordability Fund Trust is accessible to electricity distributors to provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs (HAP), and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.~~LDCs would apply to the Affordability Fund and use funding from the Fund to offer energy efficiency measures to those customers that meet the targeted eligibility criteria established by the Trust.~~

Q. How will the Affordability Fund program be marketed?

On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. This announcement built a narrative that leverages announcements on the Fair Hydro Plan and its elements, helping to lower electricity costs across the province. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

The Affordability Fund Trust has developed a communication strategy, including marketing and outreach activities. It is expected that electricity distributors~~LDCs~~ delivering the Affordability Fund program will~~ould~~ undertake ~~the~~ targeted outreach to their customers.. Eligible customers will be identified by electricity distributors~~LDCs~~. ~~Hence, the recommended communication strategy is to target outreach, as opposed to broad marketing.~~

~~The Ministry would ensure that the purpose of the fund is communicated effectively to stakeholders and specific target audiences. Ministry announcements would also build a narrative that leverages announcements on the Fair Hydro Plan and its elements, helping to lower electricity costs across the province.~~

~~It is expected that LDCs delivering the Affordability Fund program would undertake the targeted outreach to their customers.~~

Q. How will you evaluate the success of the Affordability Fund?

Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors~~LDCs~~ and regular progress reports on program participation. The TPA with the Affordability Fund Trust ~~Hydro One will~~ includes details on quarterly and annual reporting requirements, including:~~.~~

- Amounts disbursed by the AFT to Electricity Distributors, and in aggregate.
- Total Affordability Fund investment income earned and accrued to date.
- Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor.
- Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT.
- Electricity Distributor and customer feedback and lessons learned.

Q. Identify the risks that would prevent the program from achieving its objectives.

Not all customers in need will actively seek help. For example, there are those electricity customers who are not low-income but who struggle to pay their electricity bills and opt to do so in place of other necessities. These customers may not yet be on the radar of an LDC's collections department, for example.

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~~Some LDCs have a disproportionate number of customers in need of assistance and may not have the capacity to deliver this program, for example, because they are a small and/or remote LDC.~~

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How quickly and where funds will be distributed ~~will also~~ depends on the processes established by ~~how simple the funds are to access from~~ the Trust and the time that it takes individual LDCs~~by LDCs~~ to prepare for delivery of the Affordability Fund program. ~~Onerous funding criteria, and a high administrative burden will decrease LDC applications. The Ministry will establish clear principles up front, including a simple and streamlined application process.~~

LDCs note that some customers in arrears may be "gaming the system" and not truly in need. ~~The Ministry is consulting with LDCs and the OEB to establish clear principles upfront.~~ LDCs know their customers best and are best positioned to identify customers in need, based on billing history and past customer relations.

There is some complexity in the market and potential customer confusion due to the availability of other energy support and energy conservation programs (Home Assistance Program, Ontario Electricity Support Program, Low-Income Energy Assistance – Emergency Financial Assistance, Enbridge and Union Gas Home Winterproofing and Home Weatherization programs). Social service agencies play an important role for low-income customers, in helping navigate this landscape of these and other social assistance programs.

Additionally, the AFT and IESO are working on aligning the Affordability Fund and Home Assistance Program. Beginning January 1, 2018, the HAP undergoing enhancements. As directed by the Ministry, the IESO is centrally delivering HAP to further improve the impact and availability of conservation programs that help low-income customers.

Q. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

TRUST CONSIDERATIONS

Q. How much control does~~will Hydro One and~~ the Province or Hydro One have over the Trust?

The Affordability Fund Trust has been ~~TPA will include terms for Hydro One to~~ established as a non-controlled independent Trust, to oversee, administer and distribute funds to electricity distributors~~LDCs~~ across the province to help eligible households undertake energy efficiency improvements. The Trust is undertaking its duties on the basis of principles and guidance in the TPA between the ministry and the Trust, and the Declaration of Trust, established by the Province. Trustees have discretion on how they implement the program. ~~and implemented at the discretion of the Trustees.~~

The Trust structure ~~establishes an independent entity and~~ leverages the expertise of the electricity and social assistance sectors. ~~It is expected that t~~The composition of the Board of Trustees ~~will~~ represents a geographical cross section of the Province and has been~~will be~~ selected based on ~~their~~ experience in managing funds and experience in low income program delivery and oversight.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The Ministry of Energy is a non-voting Trustee, and sits on the Board of Trustees as an observer.

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The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

~~The Trustees will include representation from Hydro One, but the Trust will include sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.~~
~~Hydro One and potentially others in the LDC sector in areas such as conservation, education, call centre operations, etc.~~

~~It is expected that the composition of the Board of Trustees will represent a geographical cross section of the Province and will be selected based on their experience in managing funds and experience in low income program delivery and oversight. The Trustees will include representation from Hydro One, but the Trust will include sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.~~

~~Q. How will the Trustees be selected?~~

~~To establish the Fund, the government will enter into a TPA with Hydro One. The TPA will include terms for Hydro One to establish a non-controlled independent Trust to administer and distribute funds to LDCs across the province on the basis of principles established by the Province and implemented at the discretion of the Trustees.~~

~~Selection process for the Trustees has not yet been finalized and will be considered as part of the TPA.~~

Q. What accountability and reporting structures will be put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

~~To establish the Fund, the government will enter into a TPA with Hydro One. The TPA will include the following accountability provisions:~~

- ~~Description of the intended use of the funds including the specific purpose for which the funds will be used and the nature of eligible expenditures;~~
- ~~Report-back requirements, including periodic reporting on the use of the transfer funds; and~~
- ~~Right to independent verification/audit.~~

~~However, the Ministry of Energy recognizes that flowing of funds into an independent non-controlled trust account allows for limited oversight by the Ministry. The Ministry will continue to engage with the Ontario Provincial Controller to seek guidance on how to incorporate appropriate degrees of accountability, oversight and transparency in the TPA.~~

The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

LINKAGE QUESTIONS

Q. How will the spending augment existing rate mitigation and conservation initiatives?

Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

To help electricity consumers across the province achieve cost savings, the government is implementing a Fair Hydro Plan, which includes establishing a Fund to~~-~~ provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support~~provide support for energy efficiency improvements~~ to help customers reduce future electricity bills and avoid customer future disconnections.

The Affordability Fund will target those customers who do not qualify for low-income conservation programs (e.g. HAP) and who cannot undertake energy efficiency upgrades without support~~financial assistance~~. It is expected that many LDCs will leverage past or existing contracts with organizations delivering the HAP~~, which will lead to a quicker launch than contracting with new entities (61 of 70 LDCs are currently delivering HAP~~).

~~The Affordability Fund will build on existing/planned rate mitigation and conservation initiatives and will look to further reduce electricity rates for eligible customers.~~

Q. How will the programs compare with the existing Home Assistance Program?

The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund will provide similar measures to the HAP program, such as:

- Energy-saving light bulbs (LEDs)
- Power bars
- Energy-efficient window air conditioners
- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from the Global Adjustment/electricity rates.

Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure. Eligibility for the Affordability Fund is based on the energy affordability burden. This is the ratio of the utility 'asked to pay amount' divided by the 'net household income'. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

~~The Ministry of Energy is proposing to establish a Fund, through the tax base which will be accessible to LDCs only and will target those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills. Eligible customers will be identified by LDCs (i.e. entitlement based) and could include those in frequent arrears or facing disconnection. This is different from the HAP where the eligibility is based on individual or household income and whether or not household members are participants in certain social benefit programs in Ontario.~~

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~~The measures funded through the Fund will be similar to, or build on those available through the HAP. HAP provides qualified homeowners, tenants and social housing providers free home energy assessments, and a wide range of free energy efficient measures, such as lighting, household appliances, and weatherization (if electrically-heated). Also, similar to HAP, measures funded through the Affordability Fund will be provided at no or minimal cost to the participant.~~

It is expected that ~~many~~ LDCs will leverage past or existing contracts with organizations delivering the HAP~~, which will lead to a quicker launch than contracting with new entities (61 of 70 LDCs are currently delivering HAP)~~.

Q. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

~~The Ministry is proposing that the following factors and metrics be used by the Trust administrator to determine customer eligibility for programs delivered through the Fund, including:~~

- ~~Do not qualify for low-income conservation programs, but the LDC has reasonable evidence to indicate that they require financial assistance to pay for energy efficiency measures;~~
- ~~May have triggered action by an LDC collection department (e.g., customers are in arrears, have been placed on one or more payment plans, are due to be disconnected, etc.);~~
- ~~Priority could be given to eligible customers in electrically-heated homes, or other unique circumstances.~~
- ~~Other factors as agreed by the Trustees.~~

~~Eligibility for customers using Ontario Works and other social programs has not yet been determined and will be considered as part of the TPA.~~

Q. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

~~**Q. Is Hydro One aware that with them signing the TPA, they are taking full indemnity for all the LDCs who apply for this program?**~~

~~The Ministry has shared with Hydro One draft legal content relating to the TPA, including provisions clauses relating to indemnity.~~

~~**Q. Why is the Trust needed? Can the Ministry not deliver the program directly? Why is H1 setting up the trust and not the ministry?**~~

Commented [DTY(8]: duplicative

~~The Ministry has limited program design and delivery capacity and would not be suitable to deliver the Affordability Fund.~~

~~LDCs, and Hydro One in particular have considerable program delivery experience and capacity, and have the ability to implement a new conservation program relatively quickly. Most LDCs, including smaller ones, can also leverage the contracts they currently have in place with organizations that are delivering HAP (61 of 70 LDCs are currently delivering HAP) to deliver the energy efficiency program.~~

~~The Trust structure will provide an effective solution to an otherwise challenging problem of distributing dollars to LDCs.~~

- ~~With approximately 70 LDCs in the province, entering into TPAs with each LDC is not feasible. The Trust structure establishes an independent entity with expertise from Hydro One and others in the LDC sector.~~

- ~~It is expected that the Board of Trustees will represent a geographical cross section of the Province and thereby avoid any perception of favouritism.~~
- ~~A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.~~

Q. What happens to unspent money?

It is expected that the funds through the Fund will be deployed within a year or two of program launch~~(funds are expected to be exhausted by March 31, 2018)~~. The TPA ~~will~~ includes the option to extend the original funding amount into future years in the event of under spending.

The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. ~~If underspending were to continue to the end of the extension period, the TPA will consider re-direction of unspent funds to specified parties (e.g. non-consolidated entities or another non-controlled trust) at the end of the extension term.~~ The Trustee shall identify the Residual Beneficiary, or if more than one the Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

Q. Does the Ministry have the ability to claw-back funds?

The~~It is expected that the~~ TPA ~~will~~ includes claw-back provisions to recover funds were not used for the intended purposes. ~~The Ministry will work with the Ontario Provincial Controller to incorporate claw-back provisions in the TPA.~~

2018-02-23 TOP ISSUES AND ESTIMATES AFT_SCOPA_1.pdf

SCOPA 2018 ~~TOP~~ AFT NOTE~~ISSUES AND ESTIMATES 2017~~

DM's Top Issues on Affordability Fund

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of social service~~low income~~ organizations, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form~~Program details are currently being finalized by the Trust~~.
- As of February 23, 2018, approximately more than 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- ~~It is expected that distributors will be able to start applying for funds in Fall 2017.~~
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is~~will be~~ guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.

- The table below outlines the Board of Trustees for the Affordability Fund Trust

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

ADM Backpocket on AFT

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

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- ~~Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of social serviceLow income organizations, in establishing eligibility criteria and guidance on funding allocation methodology.~~

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
    - Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refgrigerators, and dehumidifiers).
    - Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.
- Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

~~Program details are currently being finalized by the Trust.~~

~~*Reporting*~~

- ~~The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.~~
- ~~It is expected that distributors will be able to start applying for funds in Fall 2017.~~
- ~~In implementing the Affordability Fund, the independent Trust will be guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.~~

The sections below provide additional program details ~~on program details~~ relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.~~Program details are currently being finalized by the Trust and, subject to the independent decision-making process of the Trustees, there may be changes to the details outlined below~~.

PARTICIPANT ELIGIBILITY

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- It is expected that individuals receiving funding will have demonstrated a need for ~~financial~~ support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund will depend ~~is expected to be 15,000 to 65,000 households, depending~~ on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP) ~~program~~, at no or minimal cost, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation
- Air source heat pumps are ~~could~~ also ~~be~~ an eligible measures under the Affordability Fund for homes that are electrically-heated.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current ~~draft~~ program design, recipients could receive measures ranging from $260 to over $6,000 per customer (including air source heat pumps).

- Based on the current ~~draft~~ program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households.

Commented [DTY(2]: It would be prudent not to publicize a number.

ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.
- The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and

electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY had been minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.

- ~~As program design is currently under development by the Affordability Fund Trust,~~ ENERGY's first ~~proposes to~~ report back to TB/MBC ~~through~~ through the PRRT process was in October 2018 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included~~in Fall 2017 with~~ progress to date and next steps.

    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.

- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.

- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

~~Approved by: Kaili Sermat-Harding, ADM~~
~~Date approved: XXX, 2017~~

~~ESTIMATES 2017~~

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FW_ SCOPA_QA_Friendly_Chapter 3_ICI(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	FW: SCOPA_QA_Friendly_Chapter 3_ICI
Date:	March 5, 2018 12:55:00 PM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI.docx

Hi Steen –
Edits to ICI friendly.

HC

SCOPA_QA_Friendly_Chapter 3_ICI_1.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

DRAFT

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

DRAFT

Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower their electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

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History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. As I mentioned earlier, ~~R~~right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

DRAFT

By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

DRAFT

FW_ SCOPA_QA_Friendly_Chapter 3_ICI.pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA_QA_Friendly_Chapter 3_ICI
Date:	March 5, 2018 11:57:00 AM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI.docx

Ava – please give this a quick look after the SoC note is done.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: March 5, 2018 11:43 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: SCOPA_QA_Friendly_Chapter 3_ICI

Hi Guys –
Please fact-check review the attached (revised) Chapter 3 friendly on ICI. I'd like to have this back by 1 pm please.

HC

SCOPA_QA_Friendly_Chapter 3_ICI_1_1.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

DRAFT

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

DRAFT

Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

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History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. Right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

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By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

DRAFT

FW_ SCOPA_QA_Friendly_ENERGY (2) (1).pdf

From:	Lightbody, Ava (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	FW: SCOPA_QA_Friendly_ENERGY (2) (2)
Date:	January 26, 2018 4:53:11 PM
Attachments:	SCOPA_QA_Friendly_ENERGY-ADM.docx

Hi Hilary,

Revisions in response to Steen's concerns.

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: January 26, 2018 2:50 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA_QA_Friendly_ENERGY (2) (2)

Steen's comments on the chapter 2 friendly.

HC

SCOPA_QA_Friendly_ENERGY-ADM.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of OFHP

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills ~~Bills~~ have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

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In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take ~~necessayr~~necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

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OPG was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG will arrange for the third party debt, and supplement this funding through the Province and additional funds contributed by OPG, through increased equity in the Trust at equivalent market rates.

DRAFT

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion in segregated nuclear funds to manage nuclear liabilities and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs ~~totalling~~totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OPG is uniquely positioned to be the Financial Services Manager, understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), and has experience in Treasury operations in the marketplace, including relationships with the credit rating agencies.

OFHP is delivering much-needed rate relief to residential consumers, farms, small businesses, long-term care homes and condominiums. The decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the

electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

~~OPG has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.~~

~~The total estimated cost of the program has been revised downwards substantially to reflect revised inputs, including updated long-term cost projections for the electricity system and residential bills provided by the Independent Electricity System Operator (IESO). Current government estimates forecast that the peak debt over the thirty-year life of OFHP will be approximately $20 billion. The preliminary estimate from March 2017 was about $28 billion.~~

~~A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions. Each of these factors will need to be managed and monitored closely.~~

~~With respect to the $4 billion figure referenced by the Financial Accountability Office (FAO), it should be noted that the report was based on the initial Ministry of Energy estimates from March 2017. The FAO simply took an estimated cost of borrowing for the Ontario Financing Authority (OFA) and OPG and applied the difference to debt estimates based on Ministry of Energy data from March.~~

~~Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.~~

~~The FAO report itself concluded by saying "the FAO's estimates are subject to many assumptions and uncertainties (…) Fiscal impact may differ significantly from the FAO's estimates."~~

~~The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.~~

~~Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long-termlong term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a~~

~~commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).~~

Commented [HS(1]: We need a better closing section.

This is friendly questions, not sure why we're highlighting these points.

DRAFT

FW_ SCOPA_QA_Friendly_ENERGY (2) .pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Subject:	FW: SCOPA_QA_Friendly_ENERGY (2) (2)
Date:	January 26, 2018 3:20:00 PM
Attachments:	SCOPA_QA_Friendly_ENERGY (2) (2).docx

Please take a look.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 26, 2018 2:50 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA_QA_Friendly_ENERGY (2) (2)

Steen's comments on the chapter 2 friendly.

HC

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Commented [HS(1]: We need a better closing section.

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DRAFT

FW_ Standing Committee on Public Accounts - Cha....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	FW: Standing Committee on Public Accounts - Chapter 2
Date:	February 13, 2018 6:24:00 PM
Attachments:	1. SCOPA QAs_MOE_20180208 - Approved.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx Status Table_Ch 2 of AG AR_SCOPA_20180213 Final to Clerk.docx

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FYI, we also shared these with OPG.

From: Schlaepfer, Martin (ENERGY)
Sent: February 13, 2018 6:24 PM
To: 'David Barrett' <david.barrett@ieso.ca>
Cc: Jordan Penic <jordan.penic@ieso.ca>; Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Subject: Standing Committee on Public Accounts - Chapter 2

Hi David,

Attached are the latest materials for our appearance at SCOPA on chapter 2.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
M: 647-980-4634
E: martin.schlaepfer@ontario.ca

1. SCOPA QAs_MOE_20180208 - Approved_2.pdf

QUESTIONS & ANSWERS

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Other ..... **Error! Bookmark not defined.**

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

DRAFT

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards	Continue to monitor progress.

	its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

FW_ Standing Committee on Public Accounts - Rev....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Bungaro-Yemec, Francesca (ENERGY)
Subject:	FW: Standing Committee on Public Accounts - Review of the IESO Market Oversight and Cybersecurity
Date:	February 21, 2018 5:22:00 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20 .pdf

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From: Nucciarone, Michael (ENERGY)
Sent: February 21, 2018 5:13 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Standing Committee on Public Accounts - Review of the IESO Market Oversight and Cybersecurity

Hi Martin,

I have to run for the night, but am passing along the final status update table to accompany the signed letter to the Clerk. When the Deputy signs, are you able to send along the letter and the attached to the Clerk?

The signed letter is on Francesca's desk.

Thanks, have a great night.
Mike

Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2_5.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

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Report of the Auditor General of Ontario
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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

FW_ Weekly Rate Mitigation Meeting .pdf

From:	Cox, Hilary (ENERGY)
To:	Devan, Jane (ENERGY)
Cc:	Christie, Tim (ENERGY)
Subject:	FW: Weekly Rate Mitigation Meeting
Date:	October 31, 2017 3:26:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 31.docx 2017-10-27 OFHP Matrix - Week of Oct 31_Tracked.docx

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Hi Jane –

Please print the attached materials for Steen's 8 am meeting tomorrow.

Tim – FYI – finals for rate mitigation implementation group.

HC

2017 Outstanding Business Issues - Week of O_7.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

2017-10-27 OFHP Matrix - Week of Oct 31_Clean_3.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

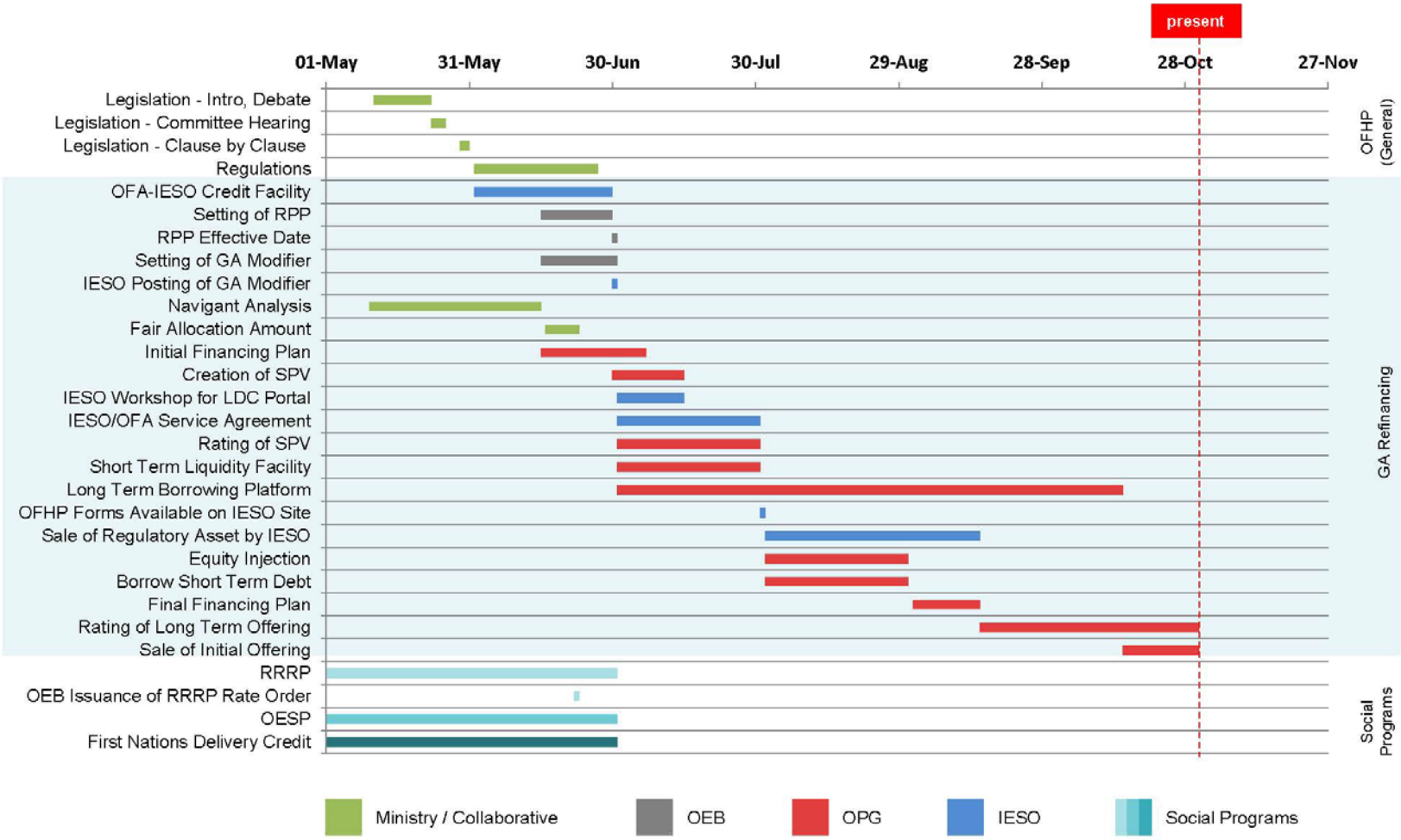
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Agenda_Weekly Rate Mitig Implmentation Group__2.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 31, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Protection and Assurances Agreement (OFA / OPG)
    - Commercial Agreement (OPG/ IESO)
    - OPG's Financing Plan (OPG)
    - Regulatory Amendments (ENERGY)

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-10-27 OFHP Matrix - Week of Oct 31_Track.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

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• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
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• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
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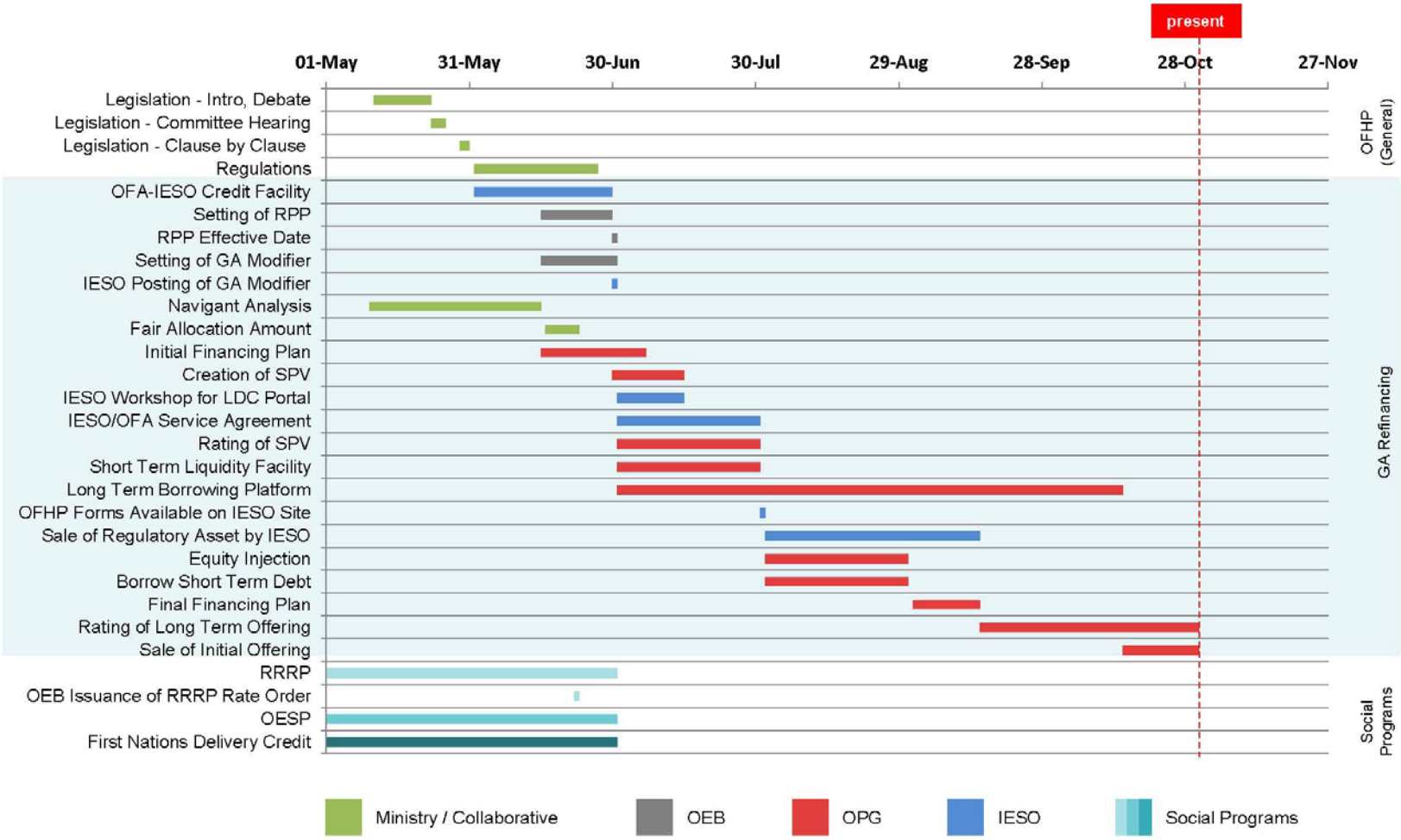
Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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For ADM approval_ SCOPA QAs_MOE_20180124 v1_SH.pdf

From:	Kitchen, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	For ADM approval: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 29, 2018 2:28:02 PM
Attachments:	2018-01-29 SCOPA QAs_MOE_20180124 v2_CEEB_v2.docx

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Kaili:

ESO and SNAP are reviewing QAs for the Standing Committee on Public Accounts (SCOPA). These QAs are due to TBS.

In their review, ESP has flagged the QAs for CRED asking us to provide input on the Affordability Fund.

Attached for ADM approval please find CEEB's director approved tracked edits – tracked edits on pp 13-15.

Matt

Matthew Kitchen
416-325-7065

From: Cox, Hilary (ENERGY)
Sent: January-26-18 1:34 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

From: Hendy, Adam (ENERGY)
Sent: January 24, 2018 3:09 PM
To: Thiru, Dhil (ENERGY); Cox, Hilary (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Whytock, John (ENERGY); Lyon, Sam (ENERGY); Perkins, Michael (ENERGY); Nucciarone, Michael (ENERGY)
Subject: For ESP Review: SCOPA Materials Drafts

Hi Dhil and Hilary,

Attached for your review are the following items that are due to TBS for SCOPA:

- **QA and KM Template –** A lot of this language is in your hands already with the OPG Tech Briefing QA that is due back tomorrow, hoping you can update/add with this messaging where indicated.
- **Response Table**
- **Friendly Q's –** We inserted everything we had for Qs 1 and 3, we will need ESP's help to get to the 20 minute mark for these. I believe Q2 is where we need it to be however.

We will leave it up to ESPD to decide if there is enough time to run the friendlies by OPG and IESO. We are comfortable with running them through next week, as long as we are able to provide ministry edits to TBS for their Monday deadline.

Please do not hesitate to call if you have any questions or concerns.

Thanks,
Adam

2018-01-29 SCOPA QAs_MOE_20180124 v2_CEEB_v2_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

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IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

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Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy
[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

DRAFT

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately ~~70~~ 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

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- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

The Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

Records Disclosure/Process

Commented [HS(4]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(5]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(6]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Fw_ Auditor General 2017 Annual Report - SCOPA ...(1)_1.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final
Date: February 28, 2018 3:03:44 PM
Attachments: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

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Hi Guys -

Please save the attached as our final. I'll have it filed with ADMO as well.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Wednesday, February 28, 2018 3:02 PM
To: Cox, Hilary (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final

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Hi. For our files, please have staff save the attached as our final Q&A package with respect to SCOPA Chapter 2.

Thank you,

Auditor General 2017 Annual Report - SCOPA Ch_24.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From: Cox, Hilary (ENERGY)
To: Devan, Jane (ENERGY)
Subject: Fw: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final
Date: February 28, 2018 3:12:20 PM
Attachments: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

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Hi Jane -
Please save the attached as our final QA for our Public Accounts response to Chapter 2 of the AG's annual report.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Wednesday, February 28, 2018 3:02 PM
To: Cox, Hilary (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Final

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Hi. For our files, please have staff save the attached as our final Q&A package with respect to SCOPA Chapter 2.

Thank you,

Auditor General 2017 Annual Report - SCOPA Ch_25.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

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- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	Fw: Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version
Date:	February 23, 2018 1:31:04 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version.docx

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Hi Guys -

Please review/edit as required attached chapter 2 QAs.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

Auditor General 2017 Annual Report - SCOPA Ch_26.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable energy system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for the typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

CONFIDENTIAL

Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

The Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FMS) responsible for the financing plans and the Fair Hydro Trust (i.e., entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report. The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

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[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

[8] Ontario Financing Authority
[9] Ontario Power Generation

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In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

[10] Ontario Power Generation

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Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with Ontario Power Generation's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meet accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

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At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Commented [HS(1]: Is this previously approved language?

Similarly, the 8 per cent rebate, introduced in January 2017, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

Commented [HS(2]: Do we want to use the "equivalent" language?

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Fw_ MOF media inquiry - SCOPA & FHP _1.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Fw: MOF media inquiry - SCOPA & FHP
Date:	March 2, 2018 3:43:17 PM
Attachments:	Media Request FHP numbers.docx

Hi Steen -
2 possible responses to Globe and Mail question on OFHP.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any

assumptions made.

From: Cox, Hilary (ENERGY)
Sent: March-02-18 12:03 PM
To: Thiru, Dhil (ENERGY)
Subject: FW: MOF media inquiry - SCOPA & FHP

Sorry, should have been clearer. Please have Tim/Daniel's shop draft a response to this using the attached package of SCOPA QAs.

From: Thiru, Dhil (ENERGY)
Sent: March 2, 2018 11:53 AM
To: Demetriades, Natasha (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: RE: MOF media inquiry - SCOPA & FHP

Hi Natasha,

Staff have suggested that DMO use the SCOPA QAs that have been used previously as a reply for this media question. Let me know if you have any questions.

Thanks.

From: Demetriades, Natasha (ENERGY)
Sent: March-02-18 11:42 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: MOF media inquiry - SCOPA & FHP

Hi Dhil: MOF has received a media inquiry from the Globe and Mail (highlighted below).

They've checked in with the OFA and they recommend that ENERGY respond to this.

Is it possible to provide some answers to this?

The reporter has no hard deadline.

Let me know, thank you.

Natasha

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Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

Media Request FHP numbers_1.pdf

Q. I request the detailed borrowing estimates cited by the government above [peak debt and accumulated interest], including the underlying math behind peak debt and interest charges and any assumptions made.

Version 1

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program and conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ontario Power Generation (OPG), in its role as Financial Services Manager, is responsible for developing financing plans and managing debt obligations to ensure the policy objectives of Ontario's Fair Hydro Plan are achieved. OPG is currently working to update borrowing and cost projections, which will reflect the results of the initial debt issuance in February 2018.

These updated estimates are expected shortly. We will provide the numbers as they become available.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Version 2

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program as conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ministry analysis underpinning the 2017 Long-Term Energy Plan (2017 LTEP) forecasts peak debt at approximately $20 billion and a total interest cost of less than $19 billion. These updated estimates include estimated fees charged by Ontario Power Generation (OPG) in its role as Financial Services Manager, and assume a 5 per cent average interest rate over the life of the program.

Forecasted peak debt represents the maximum annual debt balance. Total interest cost is the sum of forecasted annual interest paid over the thirty-year life of the program, which is calculated based on the average debt balance in each year and a 5 per cent average interest rate.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

Fw_ Meetings with AG on Fair Hydro Plan_1.pdf

From: Cox, Hilary (ENERGY)
To: Schlaepfer, Martin (ENERGY)
Cc: Bungaro-Yemec, Francesca (ENERGY)
Subject: Fw: Meetings with AG on Fair Hydro Plan
Date: September 26, 2017 8:43:44 PM

Hi Martin -
Timeline for Ministry meetings with AG on OFHP included below.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Wednesday, September 6, 2017 11:50 AM
To: Hosick, Sarah (TBS)
Subject: FW: Meetings with AG on Fair Hydro Plan

Hi Sarah –
As requested, below is the timeline of our meetings with the AG on OFHP. Note that this does not include any meetings with agencies.

Let me know if this works for you,

HC

April 19, 2017 (3:30 pm)	Ontario Fair Hydro Plan Briefing for AG (TBS, MOF, ENERGY)
May 31, 2017 (3:30 pm)	DM Call | Auditor General
June 5, 2017 (4:30 pm)	DM Call | Auditor General
June 15, 2017 (5:15 pm)	AG phoned DM (not scheduled in calendar)
August 9, 2017(10:30 am)	DM Meeting | Auditor General

From: Hosick, Sarah (TBS)
Sent: August 23, 2017 5:19 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Meetings with AG on Fair Hydro Plan

Hi Hilary,

For backpocket purposes for Public Accounts release preparation we are putting together a timeline of all govt meetings, briefings, calls, etc with the AG that related to Fair Hydro Plan.

Are you able to pull together a list for me of dates of Energy-AG meetings and if any other organizations were present?
I have the one from April 19 that TBS and Energy were both at, but I understand there were

other meetings where she met with Energy separately.

Let me know if you have any questions. Hoping to get a consolidated timeline together by end of week

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

Fw_ RUSH - Auditor General 2017 Annual Report -...(1)_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date:	February 28, 2018 11:33:09 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2 ICI only.docx

As a standalone.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>
Sent: Wednesday, February 28, 2018 11:17 AM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

From: Cox, Hilary (ENERGY)
Sent: February-28-18 11:15 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi –
Can you strip out the ICI QA and prep it as a standalone?

HC

From: Christie, Tim (ENERGY)
Sent: February 28, 2018 11:02 AM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-28-18 10:19 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Tim and Daniel -
As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this

afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP what implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_27.pdf

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

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Fw_ RUSH - Auditor General 2017 Annual Report -..._1.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date:	February 28, 2018 10:18:53 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002).docx

Hi Tim and Daniel -

As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

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To: Cox, Hilary (ENERGY)
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Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_28.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

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The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

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Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

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Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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Fw_ Rate Mitigation Implementation Group_1.pdf

From: Cox, Hilary (ENERGY)
To: Hume, Steen (ENERGY)
Subject: Fw: Rate Mitigation Implementation Group
Date: October 11, 2017 4:52:24 PM
Attachments: 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.docx
2017-09-27 Consolidated - OFHP Matrix - Week of October 9 - Consolidated -ESP-SNAP-CRED.docx

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Hi Steen -

Consolidated matrix and business issues. IGS indicates no edits.

HC

2017 Outstanding Business Issues - Week of S_12.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable~~performance~~ fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft ~~Performance~~ Variable Fee framework • Amendments to Ontario Regulation 206/17~~Regulation~~	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments~~ion~~ which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period	• Amendments to Ontario Regulation 206/17~~429/04~~ • ~~Amendments to~~	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered ~~via Global Adjustment (GA)~~during the Inflationary

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	for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.	~~OFHPA Regulations~~	Cap period.. **Timing**: Proposed regulatory amendmentsd~~ion~~ expected to be reviewed at October 16 LRC.

2017-09-27 Consolidated - OFHP Matrix - Week _13.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Funding source for carrying costs still to be determined. o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG ~~have~~ exchanged modelling data to support FAA and RA amounts in Minister's letter ~~▪ Letter is pending Minister's approval~~ o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize ~~develop~~ proposed amendments to O. Reg. 206/17 ~~regulation~~ which would determine role of OEB in determining fees OPG charges ▪ Final Leg Counsel Draft to be circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation)	~~• Late September – Minister's Fair Allocation Amount letter~~ ~~• September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet~~ ~~• September 29 – OPG Board Meeting~~ • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

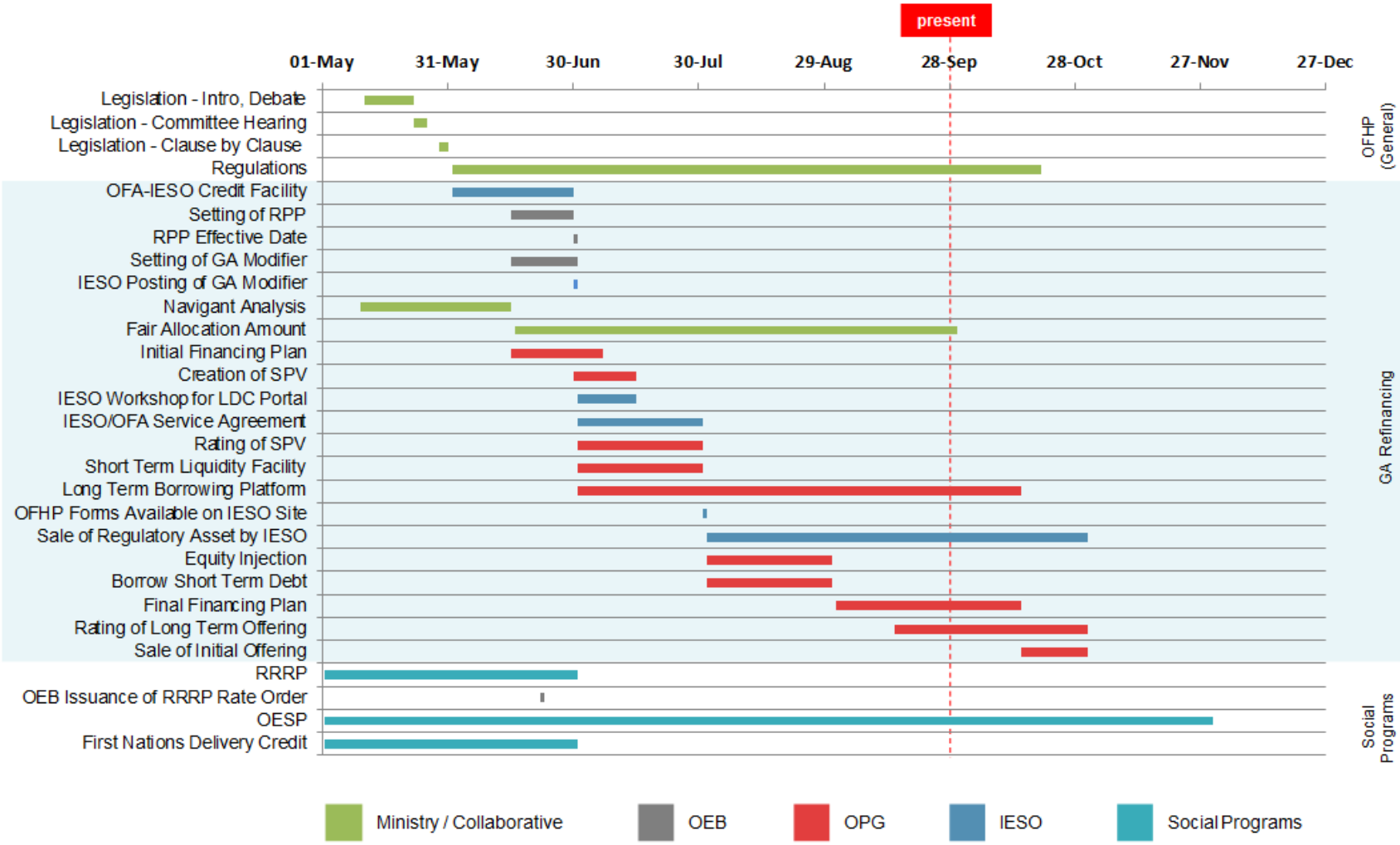
Item	Key Deliverables / Considerations	Timing / Next Steps
	▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments to O. Reg. 206/17 which would enable fees and interest amounts to be recovered during the Inflationary Cap period. ~~Recovered via Global GA~~ ~~▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA~~ ▪ Final Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre	~~• Week of August 7 – follow-up with CRA on proposed wet signature solution~~ • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December ~~late October / early November~~ to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa ~~Carleton UW~~ / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative ~~offering back office~~ support, including ~~and helping~~	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister ~~Target for program launch~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund

Item	Key Deliverables / Considerations	Timing / Next Steps
	coordinate~~e~~ing stakeholder engagement and developing program principles and details ~~on program design~~ for review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees ~~continue to~~ worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • ~~Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund~~ • Hydro One convened meetings with a number of LDCs in late September to review program design details. • Most recent Board meeting took place on October 5, 2017.	• ENERGY is amending the ~~proposing to amend~~ TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Fw_ Rate Mitigation Implementation Meeting - Se...(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Cc:	Christie, Tim (ENERGY)
Subject:	Fw: Rate Mitigation Implementation Meeting - September 28, 2017
Date:	September 27, 2017 8:12:11 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx Agenda_Weekly Rate Mitig Implmentation Group_ Sept 28.docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Materials for 8 am.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Wednesday, September 27, 2017 8:02 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Talwar, Shruti (ENERGY); Nelms, Scott (MOF); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John - TREASURY'; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); 'jordan.penic@ieso.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF)
Subject: Rate Mitigation Implementation Meeting - September 28, 2017

Hi everyone,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

2017-09-27 Consolidated - OFHP Matrix - Week _14.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

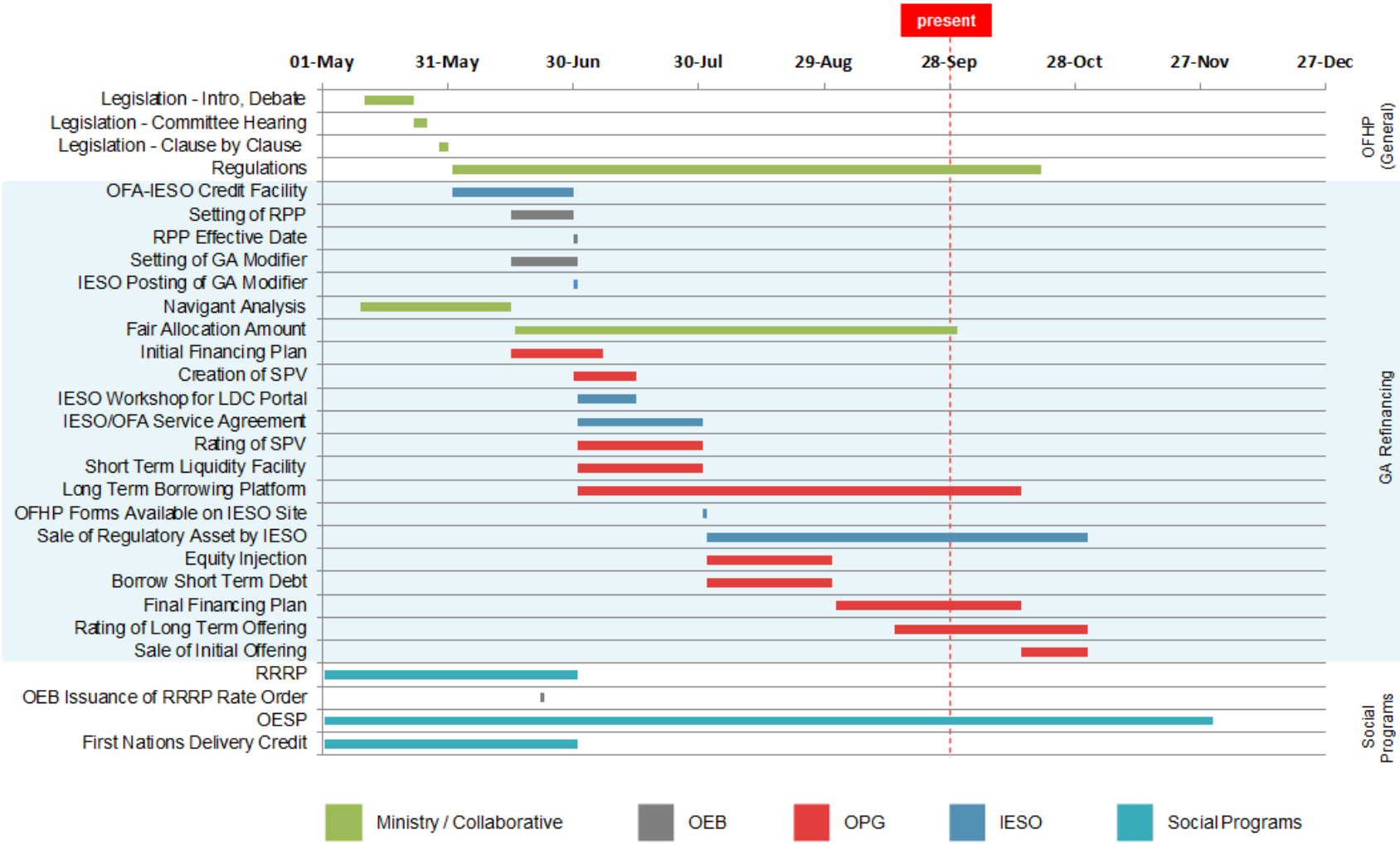
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Agenda_Weekly Rate Mitig Implmentation Group__3.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Business Item (OPG/IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees, Interest Payments and FAA Letter (ENERGY)

2) Estimates

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017 Outstanding Business Issues - Week of S_13.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

Fw_ Rate Mitigation Implementation Meeting - Se..._1.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Cox, Hilary (ENERGY); Christie, Tim (ENERGY); Nalasco, Adrian (ENERGY)
Subject:	Fw: Rate Mitigation Implementation Meeting - September 14, 2017
Date:	September 14, 2017 6:24:01 AM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

Hi, Please bring copies to the meeting this morning.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Thursday, September 14, 2017 5:46 AM
To: Hume, Steen (ENERGY); Christie, Tim (ENERGY); Nalasco, Adrian (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Nelms, Scott (MOF); ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)'; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)'; 'Kim Marshall (Kim.Marshall@ieso.ca)'; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); 'CROZZOLI Carlo -CBUSDEV&STRT'; Mayman, Gadi (OFA); 'LEE John -TREASURY'; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); 'jordan.penic@ieso.ca'; 'Turnevicius, Lorraine'; 'catriona.king@opg.com'; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF)
Subject: Rate Mitigation Implementation Meeting - September 14, 2017

Hi everyone,

Please find attached the material for discussion this morning.

Thanks,
Martin

Agenda_Weekly Rate Mitig Implmentation Group__4.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)
    - FAA (ENERGY/OPG)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-08 Consolidated - OFHP Matrix - Week _12.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

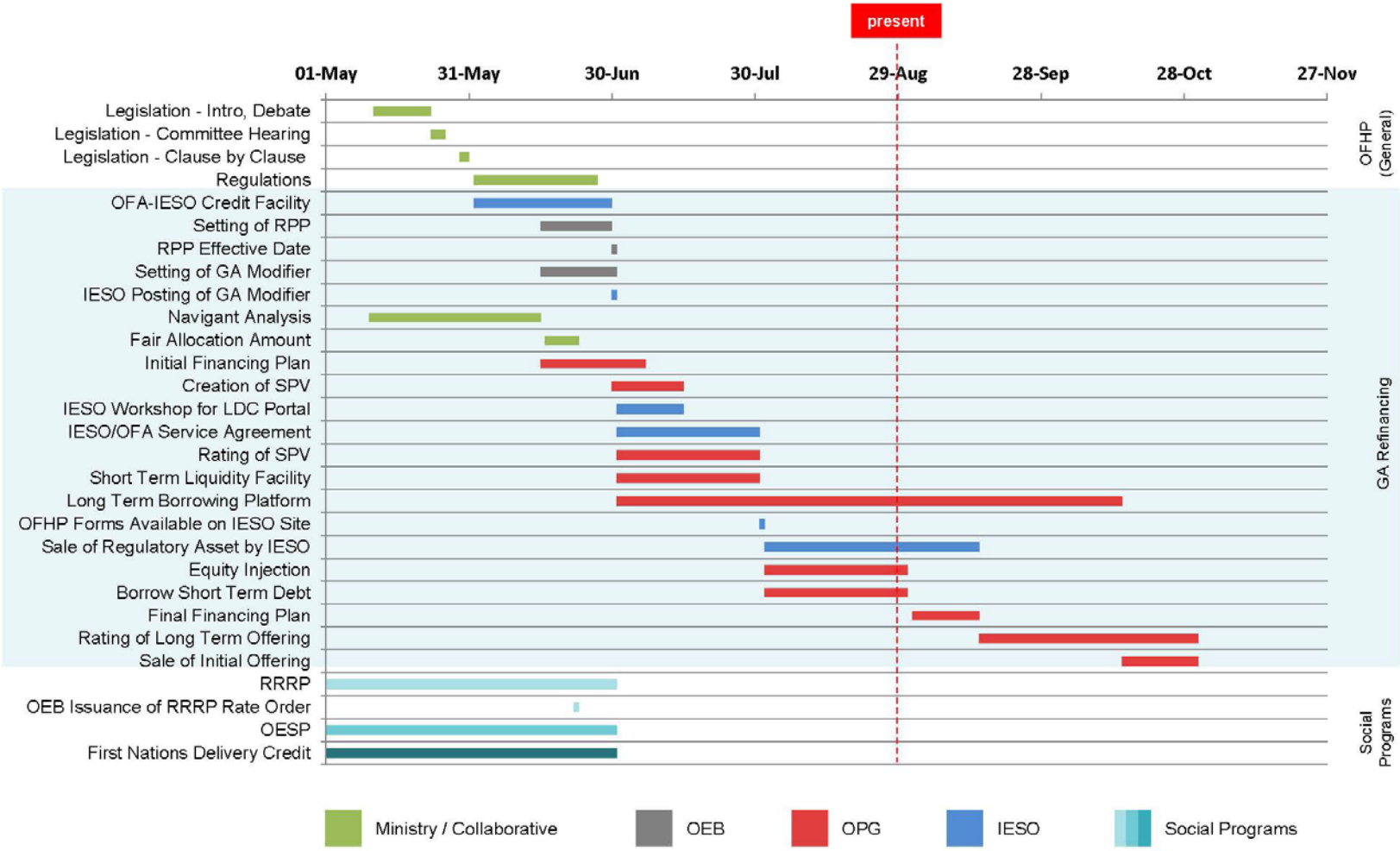
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_14.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Fw_ Rate Mitigation Implementation Meeting Mate...(1)_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	Fw: Rate Mitigation Implementation Meeting Materials
Date:	September 13, 2017 8:21:18 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi Martin,

I'm hoping the attached are the correct materials. These are the same ones that were prepared for the Monday meeting, which Hilary then requested staff update for EOW following tomorrow's meeting. Please advise if I am missing something, and my apologies if so. I'm still tracking down an agenda, but wanted to get these to you asap.

Thanks for your patience!

Ava

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017-09-08 Consolidated - OFHP Matrix - Week _13.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re:	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

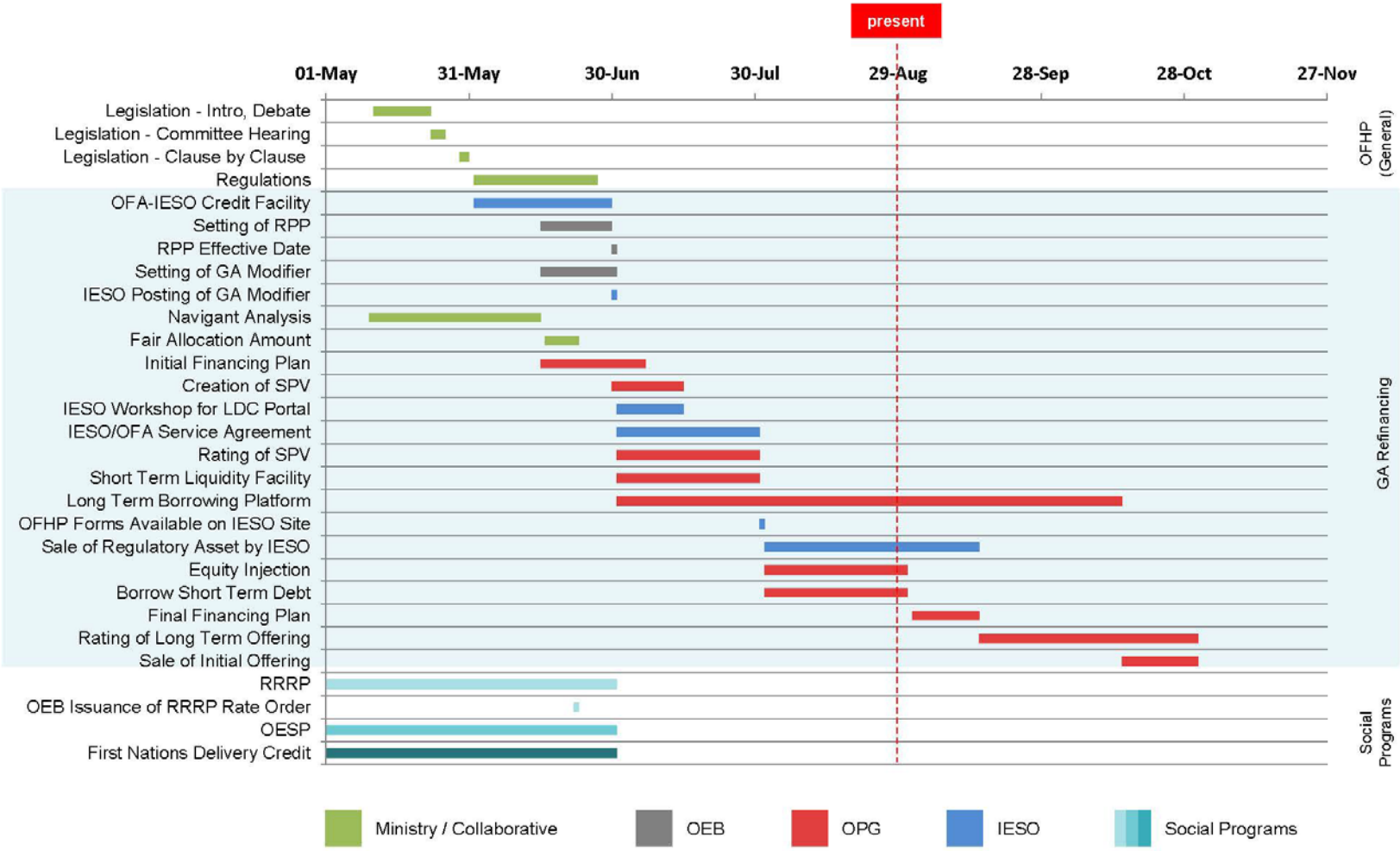
Item	Key Deliverables / Considerations	Timing / Next Steps
	PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_15.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Fw_ Rate Mitigation Implementation Meeting Mate...(2)_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY)
Subject:	Fw: Rate Mitigation Implementation Meeting Materials
Date:	September 13, 2017 10:04:41 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx Agenda_Weekly Rate Mitig Implmentation Group_Aug 28.docx
Importance:	High

Hi Tim,

Just spoke with Martin, who has let me know that these materials need updating to reflect things that have happened this week (since the rate mitigation meeting that was on Monday). I'm not sure whether this is something you are already working on, but they need to be sent up tonight so they can be shared. Will give you a call if I don't hear back - apologies for the hour.

Thanks,
Ava

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Wednesday, September 13, 2017 8:21 PM
To: Schlaepfer, Martin (ENERGY)
Subject: Fw: Rate Mitigation Implementation Meeting Materials

Hi Martin,

I'm hoping the attached are the correct materials. These are the same ones that were prepared for the Monday meeting, which Hilary then requested staff update for EOW following tomorrow's meeting. Please advise if I am missing something, and my apologies if so. I'm still tracking down an agenda, but wanted to get these to you asap.

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From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>

Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

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2017-09-08 Consolidated - OFHP Matrix - Week _14.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

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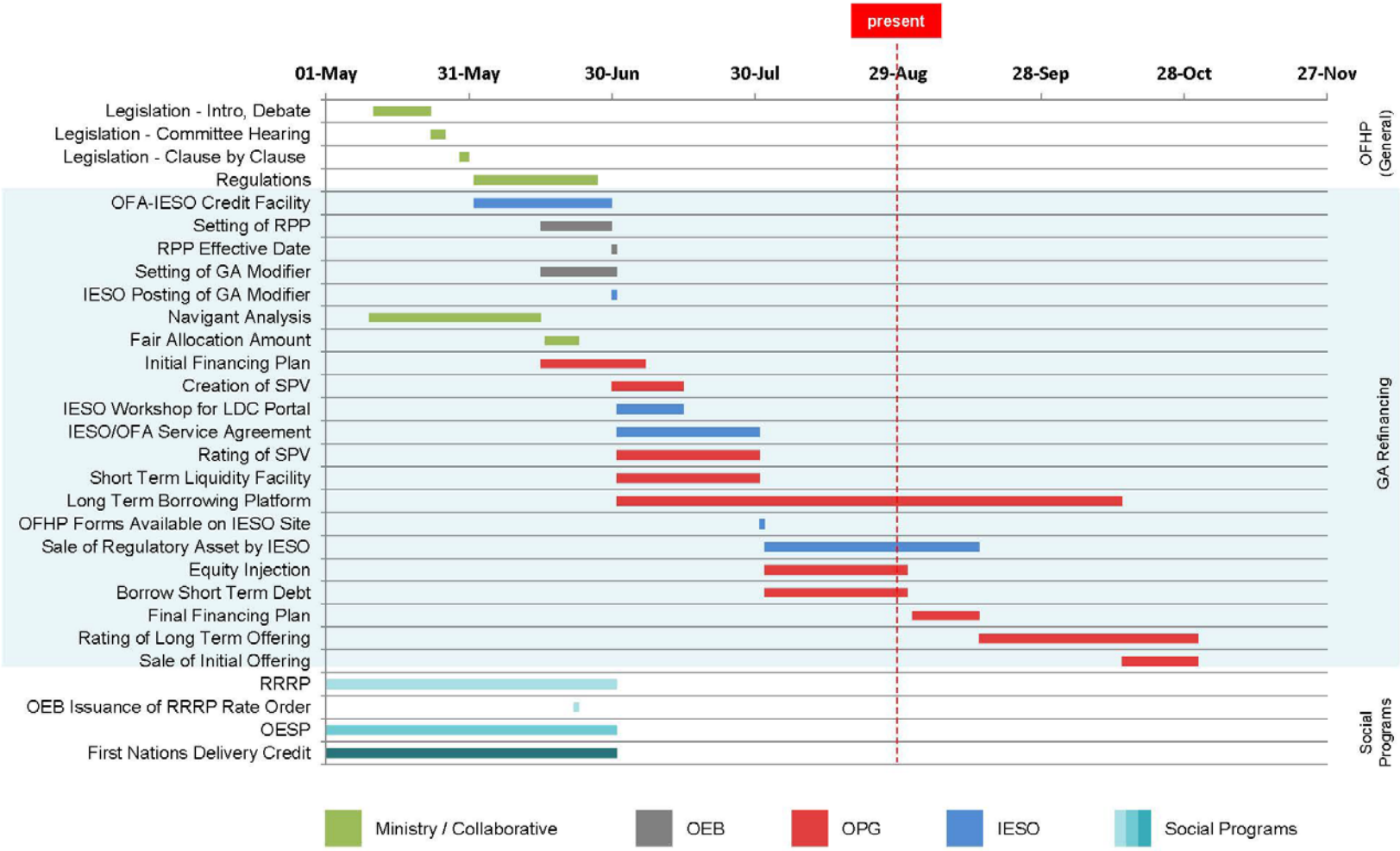
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_16.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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Agenda_Weekly Rate Mitig Implmentation Group__5.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

Fw_ Rate Mitigation Implementation Meeting Mate...(3)_1.pdf

From:	Cayley, Daniel (ENERGY)
To:	O"Riordan, Eamon (ENERGY)
Subject:	Fw: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 2:31:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 25.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 25.docx

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Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Sent: Wednesday, September 27, 2017 2:30 PM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Feather, Adam (ENERGY)
Cc: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Thouin, Alena (ENERGY); Montgomery, Kaitlin (MOF)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Updates from IGS attached.

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 2:28 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Thanks.

From: Edwards, Matthew (ENERGY)
Sent: September 27, 2017 2:28 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hilary,

CRED edits to Affordability Fund content updated (untracked).

Let me know if you have any questions.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 12:31 PM
To: Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

No problem.

From: Katona, Keley (MOF)
Sent: September 27, 2017 12:31 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

We'll have updates but in meetings, will have to send a bit later.

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 12:24 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Thanks.

Keley, anything from IGS? We'll want to have these consolidated for distribution by about 4 pm please.

HC

From: Edwards, Matthew (ENERGY)
Sent: September 27, 2017 12:23 PM
To: Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Sorry for delay. We've had some ongoing updates with the Affordability Trust, so will try and have an update for that ASAP.

From: Feather, Adam (ENERGY)
Sent: September 27, 2017 10:23 AM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

SNAP ADM approved edits attached.

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017 Outstanding Business Issues - Week of S_17.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: ~~Late Sept/Early Oct~~OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with ~~OPG~~MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

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2017-09-08 Consolidated - OFHP Matrix - Week _15.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – ~~Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th~~ Protection Agreement went to TB on September 25 and Cabinet September 27. – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. ~~o (OPG, IESO and Energy to work through approach)~~ ~~o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process: OPG seeking Board approval of Master Subscription Agreement on September 29. Province to finalize internal mechanisms in October o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter/regulation re: PILs for OPG ~~– IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required ~~• ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP)		

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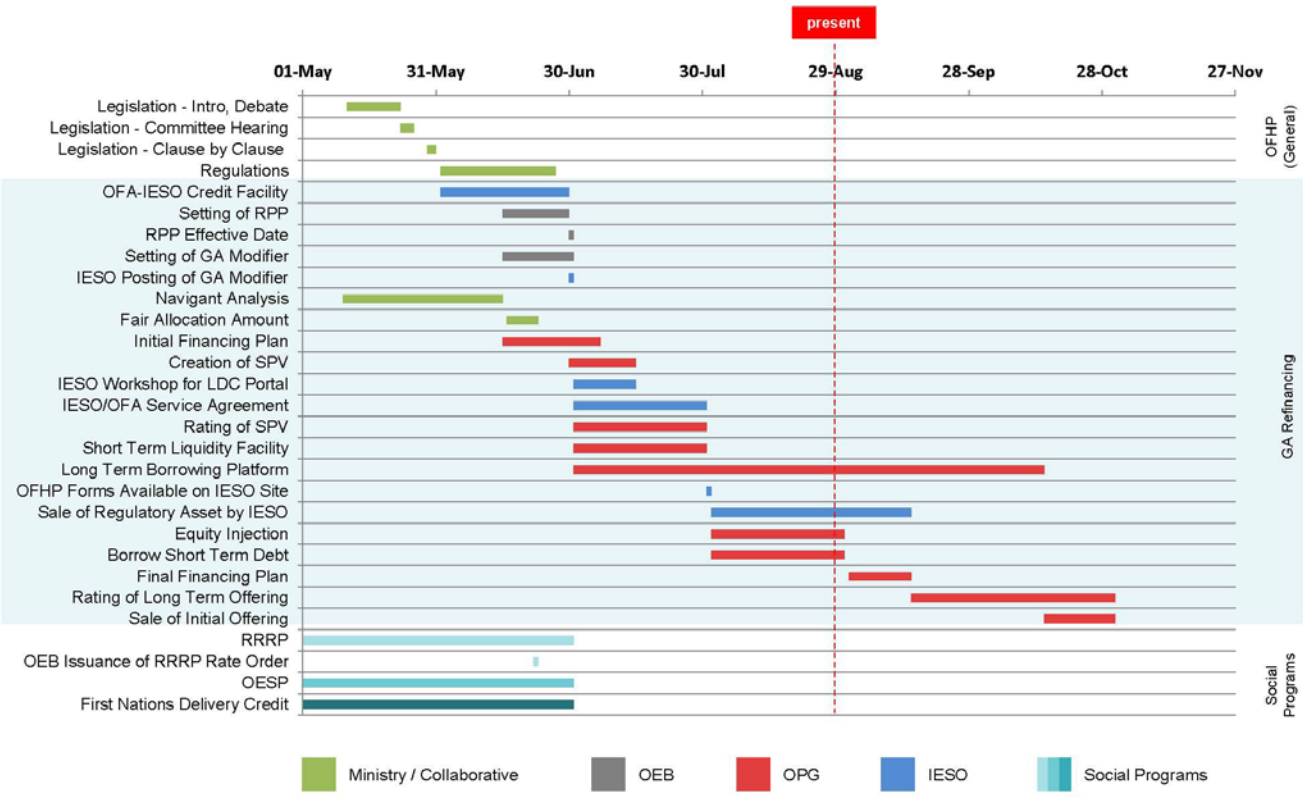
Item	Key Deliverables / Considerations	Timing / Next Steps
(SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes,	Recent Action Items	**September 2017:**

Item	Key Deliverables / Considerations	Timing / Next Steps
CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	• On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was	• Summer – Responding to AG Request (Ongoing)

Item	Key Deliverables / Considerations	Timing / Next Steps
	provided to the AG • AG attended special meeting of IESO Board on OFHP	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Fw_ Rate Mitigation Implementation Meeting Mate..._1.pdf

From: Cox, Hilary (ENERGY)
To: Teixeira, Wanda (ENERGY)
Subject: Fw: Rate Mitigation Implementation Meeting Materials
Date: September 10, 2017 4:07:01 PM
Attachments: 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx
2017 Outstanding Business Issues - Week of Sept 11.docx

Hi Wanda -

Please print the attached 2 docs for Adrian's 8:45 rate mitigation meeting.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Sent: Friday, September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Nelms, Scott (MOF); Calwell, Carolyn (ENERGY); Thouin, Alena (ENERGY)
Cc: Cox, Hilary (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017-09-08 Consolidated - OFHP Matrix - Week _16.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re:	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

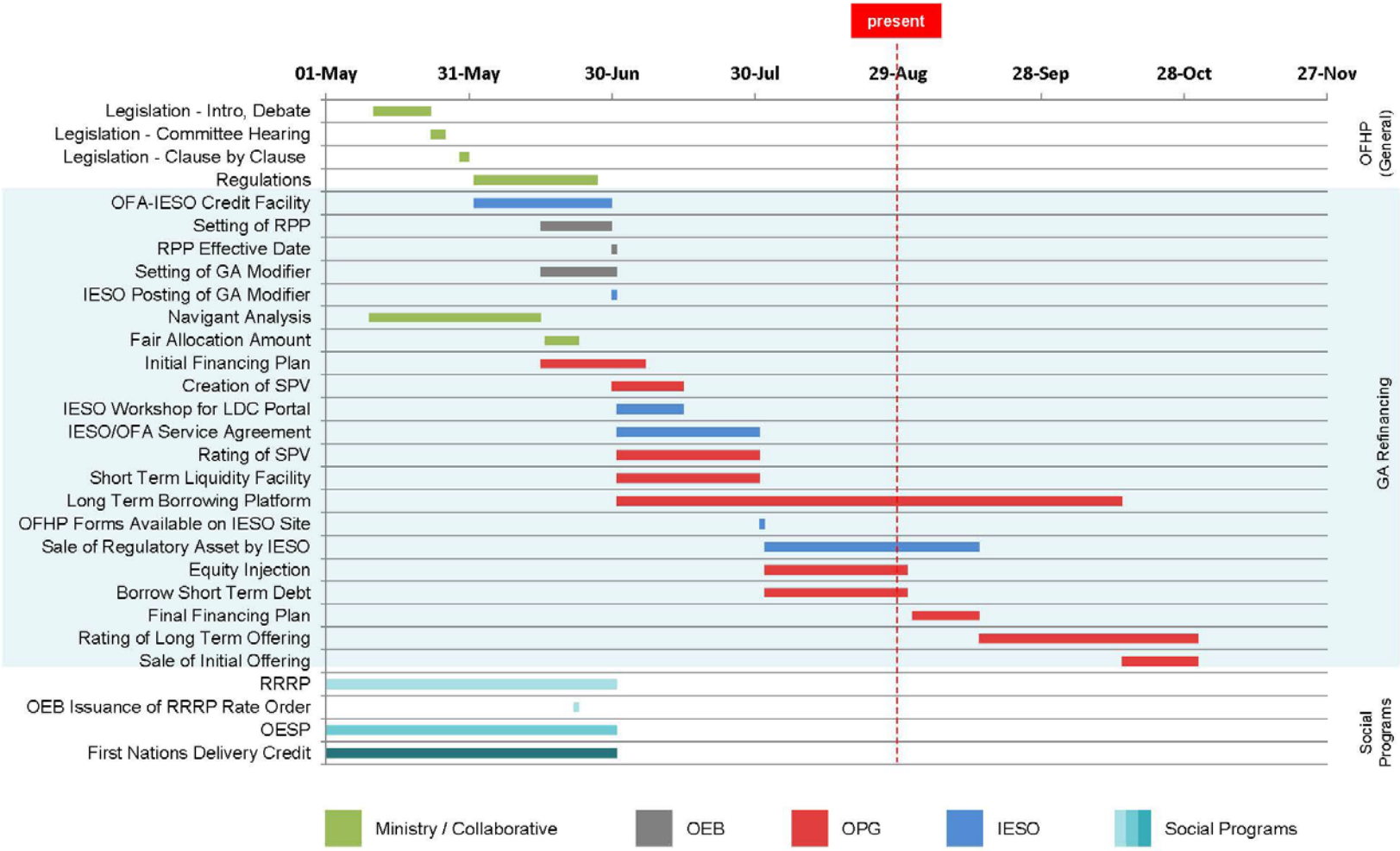
Item	Key Deliverables / Considerations	Timing / Next Steps
	PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_18.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Fw_ Rate Mitigation Meeting (1).pdf

From:	Cox, Hilary (ENERGY)
To:	Armstrong, Hillary (ENERGY)
Subject:	Fw: Rate Mitigation Meeting
Date:	September 8, 2017 7:22:59 PM
Attachments:	2017 Outstanding Business Issues - Week of Aug 21 - updates.docx 2017-07-11 Consolidated - OFHP Matrix - Week of August 28.docx

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Hi Hillary A -
Daniel and I believe these to be the most recent versions of the OFHP implementation update materials for DM-CoS. As I understand, there haven't been significant developments since these docs were last updated, so these should still be the paper that people speak to.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Friday, September 8, 2017 7:02 PM
To: Cayley, Daniel (ENERGY)
Subject: Fw: Rate Mitigation Meeting

Hi Daniel -
Please confirm if these are the correct versions of OFHP implementation materials for use next week (Monday).

I think these were the most recent, but since we skipped a week of the big group, want to double-check that this is your understanding as well.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Monday, August 28, 2017 8:27 AM
To: Cayley, Daniel (ENERGY)
Subject: FW: Rate Mitigation Meeting

Hi Daniel –
Materials for the 9 am.

HC

2017 Outstanding Business Issues - Week of A.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

2017-07-11 Consolidated - OFHP Matrix - Week .pdf

Implementation of Ontario's Fair Hydro Plan
Week of August 28, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

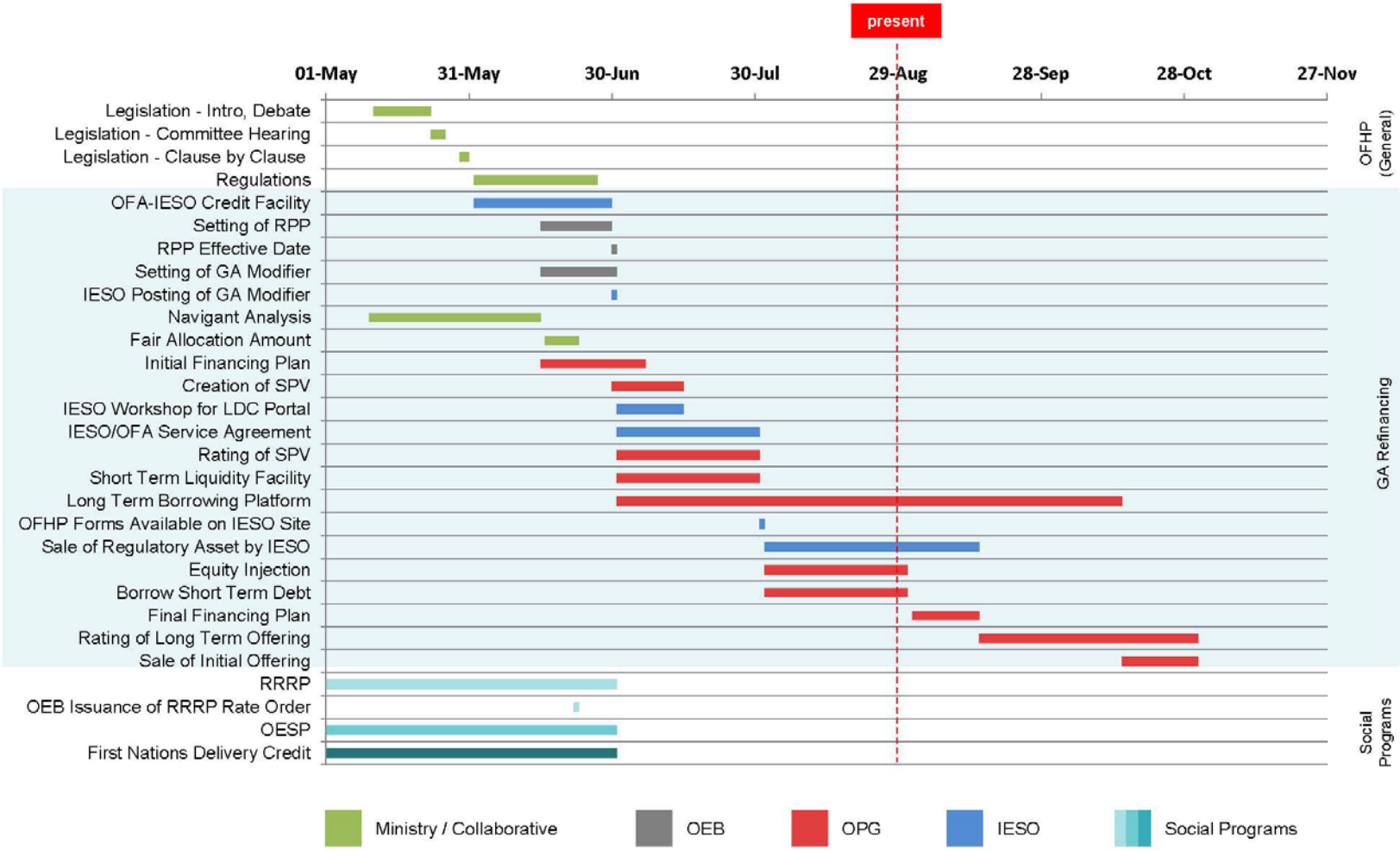
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Fw_ Rate Mitigation Meeting .pdf

From: Cox, Hilary (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: Fw: Rate Mitigation Meeting
Date: September 8, 2017 7:02:29 PM
Attachments: 2017 Outstanding Business Issues - Week of Aug 21 - updates.docx
2017-07-11 Consolidated - OFHP Matrix - Week of August 28.docx

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Hi Daniel -
Please confirm if these are the correct versions of OFHP implementation materials for use next week (Monday).

I think these were the most recent, but since we skipped a week of the big group, want to double-check that this is your understanding as well.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Monday, August 28, 2017 8:27 AM
To: Cayley, Daniel (ENERGY)
Subject: FW: Rate Mitigation Meeting

Hi Daniel –
Materials for the 9 am.

HC

2017 Outstanding Business Issues - Week of A_1.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

2017-07-11 Consolidated - OFHP Matrix - Week _1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of August 28, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
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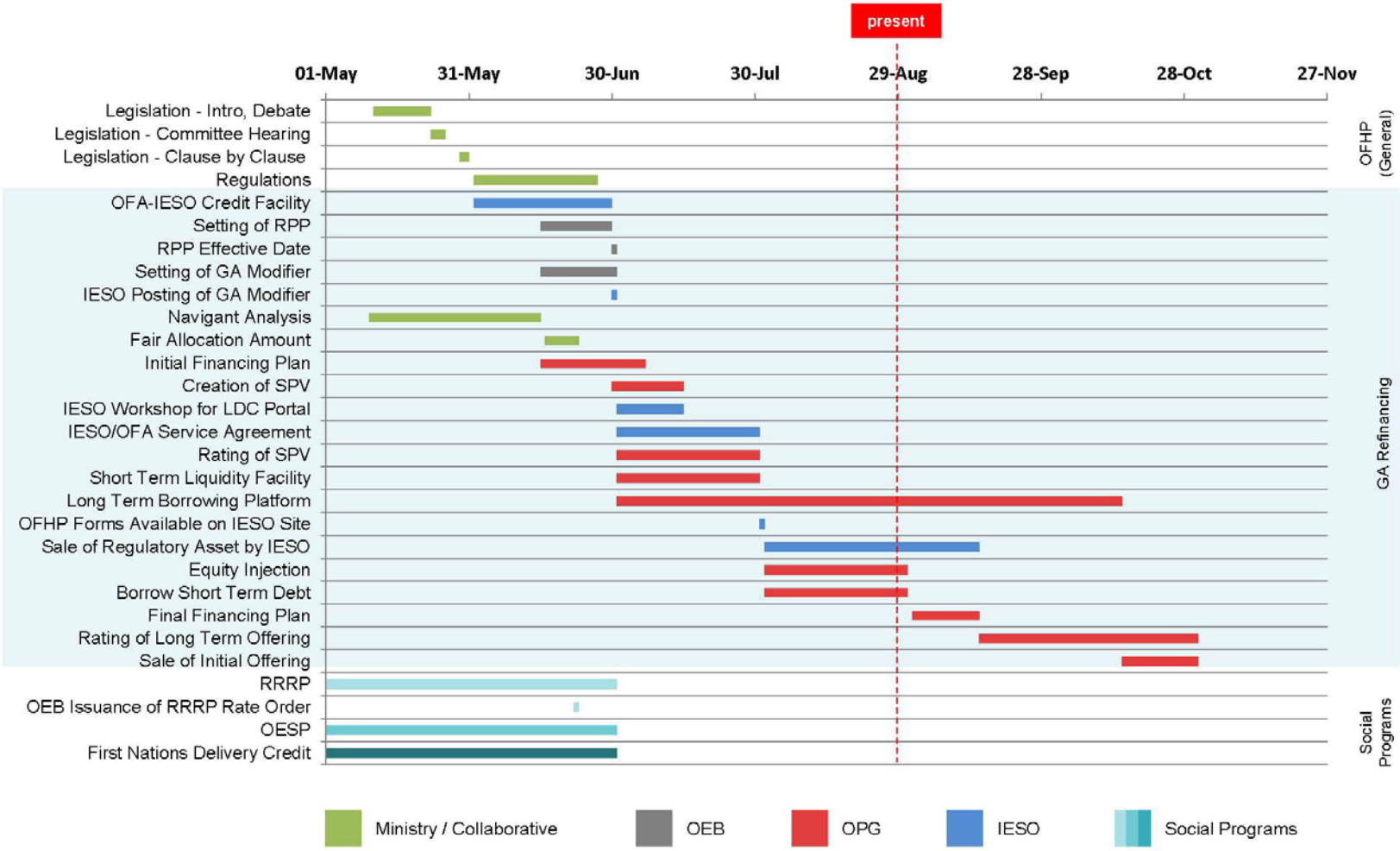
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Fw_ Rate Mitigation Meeting.pdf

From:	Cox, Hilary (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	Fw: Rate Mitigation Meeting
Date:	September 13, 2017 9:02:13 PM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx

Hi Martin,

Hoping this will be of some help... from what I can tell the agenda and other materials were understood not to have changed much and for the same ones to be used as had been used two weeks ago (at the end of August), ie Hilary's email below seems to indicate that.

Given that, attached is the same agenda as was used for the August 31 rate mitigation meeting, with the date changed. Let me know if this is acceptable, or not at all the right thing.

Apologies for some confusion..

Ava

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Friday, September 8, 2017 2:34 PM
To: Armstrong, Hillary (ENERGY)
Subject: Re: Rate Mitigation Meeting

Hi Hillary -
I think for the DM/CoS meeting, we'll be re-using the materials from last Thursday's group meeting (I'll re-foward shortly). Usually for Minister's OFHP implementation update we'd do our deck, but we just did an update the last week of August, so I'm thinking the Tuesday meeting will/may be cancelled. There aren't huge updates to report back to the Minister on in the 2 weeks since our last update (we usually do this update monthly).

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Armstrong, Hillary (ENERGY)
Sent: Friday, September 8, 2017 2:30 PM
To: Cox, Hilary (ENERGY)
Subject: Rate Mitigation Meeting

Hi Hilary,

Just wanted to check in on products for Monday's rate mitigation meeting and the OFHP implementation meeting on Tuesday? Also heads up, the Tuesday meeting will probably be moved to Monday.

Thanks!
Hillary

Agenda_Weekly Rate Mitig Implmentation Group__6.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

Fw_ SCOPA Ch 2_QA and friendlies_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Subject:	Fw: SCOPA Ch 2_QA and friendlies
Date:	February 8, 2018 3:54:47 PM
Attachments:	SCOPA QAs_MOE_20180129 - EPE-ADM FEB 8.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 8.docx

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Hi Michael -

ESPD ADM approved revisions attached.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

SCOPA QAs_MOE_20180129 - EPE-ADM FEB 8.pdf

QUESTIONS & ANSWERS

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DRAFT

PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

DRAFT

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

DRAFT

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

DRAFT

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;

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- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
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  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the

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search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Fw_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ..._1.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE
Date: February 2, 2018 2:29:01 PM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE.docx

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Hey Guys -
As below, Steen's not happy with the edits to the chapter 2 friendlies and QA. Please give these another shot. Still needed back by EOD.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Friday, February 2, 2018 2:27 PM
To: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE

Hi. This is not what I'm looking for. Just need some light adjustments, not a total re-write like they've done. The changes do not reflect the DM's voice.
They have made it worse than COMs.

Disappointed that TIM and Daniel signed off on this.

Thanks

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _12.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   ~~The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.~~ Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   We introduced OFHP because we heard from Ontario's that electricity prices had risen too quickly and relief was needed. Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices increased because our energy system is being transformed – ~~since~~ more than $70 billion has been invested to modernize the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.[3] The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by ensuring that costs are shared more evenly over the years ahead.~~spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   The GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs. The majority of the province's electricity generators have 20-year contracts. Third party experts have confirmed that many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and

Commented [HS(1]: This is previously approved.

Commented [HS(2]: DM would never say this.

This is political talking point

[1] ~~Ministry of Energy, *2017 Long-Term Energy Plan*~~
[2] ~~Ministry of Energy, *2017 Long-Term Energy Plan*~~
[3] Ministry of Energy, *2017 Long-Term Energy Plan*

will benefit future ratepayers by reducing the need to finance the development of new generating assets. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

We had asked one generation – today's generation – to unfairly shoulder the burden of a large portion of the costs of our investments in the electricity system. GA refinancing works to spread those costs over the expected lifecycle of the infrastructure that has been built, ensuring they are fairly allocated across the generations of consumers that will benefit from them.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. ~~This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

On the other hand, as part of OFHP, we decided to shift recovery for certain costs off the rate-base and onto the tax-base – costs associated with the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection.

We made that policy decision based on the recognition that these programs are for the common good and are appropriately supported by the tax base

~~Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

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~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab. –~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

Commented [AL3]: Moved up/rearranged

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

~~In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.~~

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

Commented [AL4]: Moved down with some tweaks

It is also important to note that the rate-base has a different risk profile than the tax-base, which would be reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanced the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations delivery credit.

Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
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Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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DRAFT

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

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OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

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DRAFT

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

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From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
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2. ISO New England;
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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
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5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

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In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Fw_ SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018...(1)_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Fw: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)
Date:	February 28, 2018 10:51:44 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)-esp.DOCX

Hi Steen -

Attached are our edits to the DM's revised friendly for today.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_6.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for ~~the OFHP~~Ontario's Fair Hydro Plan.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though the introduction of new and enhanced electricity social programs, such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflects the life of the assets.

   To better understand ~~the~~ Ontario's Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets:

   The first bucket is the Ontario Rebate for Electricity Consumers (OREC) program

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

The second bucket is enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

The third bucket is refinancing the Global Adjustment (GA) over a longer term period of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. ~~That's an 8% rebate~~This provides an average savings of approximately $130 annually or $11 each month. The rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes ~~about~~ nearly five million residential consumers, small businesses and farms. The OREC has an approved 2017-18 expenditure of $939M.

Commented [CD(1]: Note that while this is still the official approved expenditure, our current forecast is $883M and is subject to further reduction.

The second buck~~s~~et of initiatives consists of ~~of enhancing electricity social programs and shifting costs to the taxbase.~~

Commented [CD(2]: Edited to remove repetition

~~H~~helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following programs:

- A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.
  - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill

credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.
    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.
    - Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

Commented [CD(3]: Original STBS note showed an average of about $1.6B – defer to SNAP/CSD

And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that have been made to build a clean and reliable electricity system. This more fairly shares the cost of these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan ~~(OFHP)~~ is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the

costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Development of Ontario's Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro ~~Plan~~ Trust) that will manage the debt obligations associated with Global Adjustment ~~(GA)~~ refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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~~Ontario Power Generation (~~OPG~~)~~ is uniquely positioned to be the ~~Financial Service Manager (~~FSM~~)~~, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

~~Ontario Power Generation (~~OPG~~)~~ has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

~~Ontario Power Generation (~~OPG~~)~~ currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the ~~Ontario Energy Board (~~OEB~~)~~ with extensive experience in regulatory deferral and variance accounts.

~~Ontario Power Generation (~~OPG~~)~~ has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost ~~to Ontario Power Generation (~~OPG~~)~~. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, ~~Ontario Power Generation (~~OPG~~)~~ completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

~~Ontario Power Generation (~~OPG~~)~~ has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for Global Adjsutment refinancing ~~Ontario's Fair Hydro Plan (OFHP) initiative~~. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

~~Ontario Power Generation (~~OPG~~)~~ has a strong track record of producing high-quality financial reports on a timely basis. In addition, ~~Ontario Power Generation (~~OPG~~)~~ will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, ~~Ontario Power Generation (~~OPG~~)~~ is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

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Finally, ~~Ontario Power Generation's (~~OPG)~~-~~Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Fair Hydro Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario's Fair Hydro Plan ~~(OFHP)~~ is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment ~~(GA)~~ refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*

> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

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- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

2. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   <u>Response</u>

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

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OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

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There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

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Fw_ SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018..._1.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	Fw: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)
Date:	February 28, 2018 10:06:16 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002).DOCX

Hi Guys -
Please give a quick look at the DM's (hopefully final) revised friendly for today and let me know if everything's ok.

As quickly as possible please.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 9:54 AM
To: Cox, Hilary (ENERGY); Yordi, Samer (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Hi Hilary, Sam,

The Deputy tweaked the friendly QA for SCOPA further last night. Sharing the latest.

Can staff review to ensure everything is accurate.

Happy to chat if you have any questions.

Thanks,
Mike

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_7.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for the OFHP.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflects the life of the assets.

   To better understand the Ontario Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets:

   The first bucket is the Ontario Rebate for Electricity Consumers (OREC) program

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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The second bucket is enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

The third bucket is refinancing the Global Adjustment (GA) over a longer term period of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. That's an 8% rebate provides an average savings of approximately $130 annually or $11 each month. The rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms. The OREC has an approved 2017-18 expenditure of $939M.

The second bucks of initiatives consists of enhancing electricity social programs and shifting costs to the taxbase.

Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following programs:

- A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
    - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.
    - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill

credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.
    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.
    - Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that have been made to build a clean and reliable electricity system. This more fairly shares the cost of these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the

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costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

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Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*

> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

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We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

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When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

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The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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DRAFT

Fw_ SCOPA Chapter 3 - additional Q&As _1.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Fw: SCOPA Chapter 3 - additional Q&As
Date:	March 1, 2018 3:08:48 PM
Attachments:	SCOPA Chapter 3 - additional Q&As - EPE.docx

Hi Steen -

Revised SCOPA chapter 3 QA pkg - with the additional QAS you requested.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

SCOPA Chapter 3 - additional Q&As - EPE_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the ~~-~~Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of ~~which~~whom play vital roles in ensuring ~~our system operator to run an~~ an efficient~~ and~~, ~~-~~fair, and reliable electricity market for ratepayers across the province.

- According to IESO, ~~B~~both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to ~~eliminate~~ reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP II)

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and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- ~~Once launched,~~ Market Renewal will replace the ~~need for~~ Real-Time Generation Cost Guarantee (RT-GCG) program ~~program with a more efficient and transparent mechanism~~~~payments~~ and ~~eliminate~~ Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms. ~~Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.~~

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

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- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

[5] ~~http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs~~

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Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

.~~For example, a large industrial facility with a flat load profile does not require investments in electricity peaking resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.~~

Lastly, ICI allows participants to reduce electricity costs by one third on average, ~~It also~~ help~~s~~ing to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce and Canadian Manufacturers and Exporters to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

ICI is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. ~~In addition, s~~Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

In 2017, the total cost shift to Class B through the ICI program was about $1.2 billion.

MSP Recommendations

Q. Why didn't the Ministry respond to the recommendations ~~in~~ of the Market Surveillance Panel (MSP)?

The Ministry of Energy is committed to strong electricity market oversight in Ontario. The Ministry is briefed on all MSP reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

IESO has made numerous revisions to the market rules in response to MSP advice, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation~~ory~~ process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by ~~the~~ IESO or ~~the~~ MACD.

Market oversight in Ontario is undertaken by three independent bodies; ~~the~~ OEB, ~~the~~ OEB's MSP, and IESO's MACD. Each plays a vital role in ensuring an efficient, fair, and reliable electricity market for ratepayers across the province.

~~The~~ OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy ~~does~~ has

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

Commented [LA(3]: from IESO status table response

Commented [HS(4]: See Jordan's email on Enforcement Authorities

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the general authority to direct ~~the~~ OEB to review the market rules or market participant licenses in order to address possible abuse of market power.

~~The~~ OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning. MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e. financial penalties) for failure to comply with the market rules. MACD staff also support ~~the~~ MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP, and MACD to ensure a fair, efficient, and reliable electricity market and remain committed to working collaboratively to ensure effective market oversight mechanisms.

Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(5]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

We welcome and appreciate the recommendations of the Auditor General and agree with the need for strong electricity market oversight in Ontario.

To that end, we are working closely with ~~the~~ IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and MACD and the role and authority of ~~the~~ OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

The potential need for additional legislative authority for MACD in order to ensure effective and efficient investigations is ~~being taken in to~~under review ~~consideration~~.

This year, Ontario is undertaking a review of ~~the~~ OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of ~~the~~ OEB progresses, and the Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. ~~In other words, they're baked into the way our system operates to make sure we keep the lights on.~~

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;

- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and

- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, ~~T~~the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

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As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, ~~B~~both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As ~~we started the~~part of the phase out of coal~~ in 2009~~, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

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As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

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Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the ~~need for~~ Real-Time Generation Cost Guarantee (RT-GCG) ~~payments~~ program and ~~eliminate~~ Congestion Management Settlement Credits (CMSC). ~~Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.~~

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

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Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

~~We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.~~

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, ~~T~~this program makes sure ~~our system operator can ensure on a daily basis~~ that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

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These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by

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covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final

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decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO

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also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

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Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

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Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a

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CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies~~that continues out-of-market payments~~ at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

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- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

~~What we want to accomplish through~~As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low ~~as we can reasonably get them~~. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. ~~We've~~ IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more

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fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators

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and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been ~~recently~~ added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, ~~T~~the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

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Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

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Q. What is the Market Assessment and Compliance Division (MACD)?

~~The~~ IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

~~The~~ MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. ~~The~~ IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

~~The~~ IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, ~~A~~attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

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Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

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But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American

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Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

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The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

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The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

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Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Fw_ SCOPA Mock Session .pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Armstrong, Hillary (ENERGY)
Subject:	Fw: SCOPA Mock Session
Date:	February 21, 2018 3:28:17 PM
Attachments:	4 - SCOPA Ch 2_QA_Friendly IESO - 20180220.docx

Please see with Comms to update for the finals.

From: David Barrett <david.barrett@ieso.ca>
Sent: Wednesday, February 21, 2018 3:19 PM
To: Schlaepfer, Martin (ENERGY)
Subject: RE: SCOPA Mock Session

Martin, we've updated the friendly question response. No major change. The approach is for Peter to take the question and to start with the short pre-amble before handing off to Kim.

Thanks,
David

-----Original Appointment-----
From: Angus, Helen (TBS) [mailto:Helen.Angus@ontario.ca]
Sent: February 21, 2018 10:48 AM
To: Angus, Helen (TBS); David Barrett; Hughes, Karen (TBS); Veinot, Cindy (TBS); DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS); Kwamena, Boafoa (CAB); Donaldson, Mark (TBS); Nelson, Dane (TBS); Ue, Allison (TBS); Skoberne, Vivienne (TBS); Schlaepfer, Martin (ENERGY); McLean, David (MOF); Imbrogno, Serge (ENERGY); Thompson, Scott (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Schuurman, Tim (MOF); Orsini, Steve (CAB); Bromm, William (CAB); Pichelli, Jason (TBS); Gallant, Gabrielle (TBS); Ghiassi, Ali (MOF); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); Feenstra, Mike (ENERGY); Kate Longmoore
Cc: Hume, Steen (ENERGY); 'jeffrey.lyash@opg.com'; HOILETT Rosemarie -PRESIDENT; HARTWICK Ken -FINANCE; Peter Gregg; Dianne Hayes; Kim Marshall
Subject: FW: SCOPA Mock Session
When: February 21, 2018 4:00 PM-5:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: DM Boardroom, 5th Floor, Whitney Block, Suite 5320;

-----Original Appointment-----
From: Angus, Helen (TBS) [mailto:Helen.Angus@ontario.ca]
Sent: February 08, 2018 3:26 PM
To: Angus, Helen (TBS); Hughes, Karen (TBS); Veinot, Cindy (TBS); DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS); Kwamena, Boafoa (CAB); Donaldson, Mark (TBS); Nelson, Dane (TBS); Ue, Allison (TBS); Skoberne, Vivienne (TBS); Schlaepfer, Martin (ENERGY); McLean, David (MOF); Imbrogno, Serge (ENERGY); Thompson, Scott (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Schuurman, Tim (MOF); Orsini, Steve (CAB); Bromm, William (CAB); Pichelli, Jason (TBS); Gallant, Gabrielle (TBS); Ghiassi, Ali (MOF); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); Feenstra, Mike (ENERGY)
Cc: Hume, Steen (ENERGY); 'jeffrey.lyash@opg.com'; HOILETT Rosemarie -PRESIDENT; HARTWICK Ken -FINANCE; Peter Gregg; Dianne Hayes; Kim Marshall
Subject: SCOPA Mock Session
When: February 21, 2018 4:00 PM-5:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: DM Boardroom, 5th Floor, Whitney Block, Suite 5320;

Sent Feb 09: MO staff invited
Sent Feb 08: Attendance has been limited to those who are attending SCOPA:

SoC
Steve Orsini
TBS
Helen Angus
Jason Pichelli
Christine Poopalapillai
Karen Hughes
Cindy Veinot
Mark Donaldson
MOF
Scott Thompson
Ali Ghiassi
Tim Schuurman
Gadi Mayman
Ken Kandeepan
ENE
Serge Imbrogno
Matt Whittington
Carys Baker
Mike Feenstra
Steen Hume
Jeffrey Lyash
Ken Hartwick
Peter Gregg
Kimberly Marshall

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4 - SCOPA Ch 2_QA_Friendly IESO - 20180220.pdf

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   Peter Gregg:

   Thanks for your question. My name is Peter Gregg, I'm the President and CEO of the Independent Electricity System Operator. Before we dive into the accounting policies we follow, it might be helpful for me to provide the committee with an overview of our role and responsibility in Ontario's electricity sector.

   The Independent Electricity System Operator is the public agency at the heart of Ontario's electricity system. We have a broad mandate that includes:

   - planning to meet Ontario's electricity needs in the near- and long-term;
   - reliable operation of the provincial electricity grid;
   - administering Ontario's wholesale electricity market;
   - fostering a culture of conservation; and in doing all of this
   - engaging with stakeholders and communities across the province.

   In our role as market administrator, we oversee all wholesale electricity market transactions. Through this market, money is constantly flowing to and from market participants, such as generators, like OPG and distributors, like Toronto Hydro.

   As a not-for-profit entity, our role is to efficiently manage and facilitate these market transactions.

   This may sound fairly straightforward, but to give you an idea of the value of transactions in our market, last year we settled about 17 billion dollars of financial transactions.

   Now I'd like to invite my colleague Kimberly Marshall to address the question you have related to the IESO's accounting policies. Ms. Marshall is the IESO's Chief Financial Officer and Vice President and Corporate Services.

DRAFT

Kim Marshall:
Thanks Peter.

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only auditing framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP auditing framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

DRAFT

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

DRAFT

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

DRAFT

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

DRAFT

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

DRAFT

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

DRAFT

Fw_ SCOPA QAs - For MOF_ENER Review_1.pdf

From:	Kitchen, Matthew (ENERGY)
To:	Syed, Usman (ENERGY); Colalillo, Sam (ENERGY); Johnson, Paul (ENERGY)
Cc:	Edwards, Matthew (ENERGY); Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY); Ieraci, Vanessa (ENERGY)
Subject:	Fw: SCOPA QAs - For MOF/ENER Review
Date:	February 15, 2018 12:19:45 PM
Attachments:	SCOPA QAs_FOR ENERGY.docx

See below for asap request from tbs.

Matthew Kitchen
416 325-7065

From: Hendy, Adam (ENERGY) <Adam.Hendy@ontario.ca>
Sent: Thursday, February 15, 2018 12:09 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs - For MOF/ENER Review

Re-sending with the version containing my edits.

From: Hendy, Adam (ENERGY)
Sent: February-15-18 12:07 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: SCOPA QAs - For MOF/ENER Review
Importance: High

Hi Hilary and Matt,

TBS has asked to review their attached QAs for SCOPA. In the doc they have flagged a few areas for Energy input, which I have answered using approved messaging from our materials.

Hoping CRED and ESP can take a look at this ASAP and confirm if my additions are suitable.

Thanks for this, and sorry for the rush.
Adam

From: Tharani, Alisha (TBS)
Sent: February-15-18 11:39 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Cc: Miller, Amanda (TBS)
Subject: SCOPA QAs - For MOF/ENER Review

Hi Peter, Adam,

We have recently received feedback from our program area regarding questions that were included in our TBS QA document that may be better suited for Finance and Energy.

See attached.

Wanted to give you a head's up that though the way some of the questions may be worded, the response is better suited to come from your ministry/agencies. We have included the response that we had – but of course it will need to be vetted by your respective program areas.

Please let us know if you have any issues with how we've structured the handoff. If it's possible to get your feedback ASAP, it would be very much appreciated.

Thank you,

Alisha

SCOPA QAs_FOR ENERGY.pdf

SCOPA QAs – ENERGY

Flagged by TBS for Energy's Review:

1. **Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?**
   TO CONFIRM whether IESO or TBS should answer this question.

   Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

Commented [TA(1]: Should IESO or TBS answer this question?

2. **Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?**
   TO CONFIRM whether IESO or TBS should answer this question.

   The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

Commented [TA(2]: Should IESO or TBS answer this question?

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Ontario Fair Hydro Plan

AG Recommendation #3: OFHP

1. **The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?**

Commented [CV3]: I think you will want Energy to add content to this question re: how the Energy sector is financed (e.g. at market rates vs. the provincial borrowing rate).

Commented [TA(4]: Have left initial key messages for TBS. Will flag for Energy that this question would be passed to them.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

2. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates.

The preliminary estimate from March 2017 was about $28 billion[1]. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[2]. With respect to the $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

~~The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.~~

~~Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).~~

~~Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.~~

For further questions about borrowing estimates, please contact the Ministry of Finance.

Ontario Fair Hydro Plan

AG Recommendation #9: Arm's Length Trusts

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

Commented [CV5]: Energy needs to update, as OPG Trust has placed its first tranche of debt in the market.

Commented [TA(6]: Have left initial key messages for TBS reference and will flag for Energy that this question will be passed to them to speak to the fact that OPG Trust has placed its first tranche of debt in the market.

Commented [CV7]: This question may be better split into two (a) the general use of a trust which TBS would answer and (b) why a trust for the low income affordability fund which Energy would answer.

Commented [TA(8]: Have included handover to Energy to speak to the Affordability Fund.

[1] Ministry of Energy, submission to Financial Accountability Officer
[2] Ministry of Energy
[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended. The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Fw_ SCOPA QAs_MOE_20180124 v1_SH_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc:	Hendy, Adam (ENERGY)
Subject:	Fw: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 26, 2018 1:34:26 PM
Attachments:	SCOPA QAs_MOE_20180124 v1_SH.docx

Hi All -

Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

SCOPA QAs_MOE_20180124 v1_SH_2.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

DRAFT

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

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IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

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Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(4]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(5]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(6]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	Fw: SCOPA QAs_MOE_20180129 - DM Edits - EPE
Date:	February 2, 2018 2:30:56 PM
Attachments:	SCOPA QAs_MOE_20180129 - DM Edits - EPE.docx

And here are the overall QAS for your edits. He actually wants these back by 3 pm please, rather than EOD.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Friday, February 2, 2018 2:30 PM
To: Cox, Hilary (ENERGY)
Subject: SCOPA QAs_MOE_20180129 - DM Edits - EPE

Hi. Same problem as the Friendlies. These are the DM's Q&As, not the MINs.

Want both products back by 3:00.

Thanks,

SCOPA QAs_MOE_20180129 - DM Edits - EPE_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that any deferred electricity system costs should be borne by the rate-base and not the tax-base.
- GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.
- ~~The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these ~~new~~ investments ha~~ved~~ grown too quickly, which is why we have moved forward with a plan that w~~ould~~ill ensure costs are shared more evenly over the years ahead.

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

~~In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.~~

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second, The province has introduced rate relief programs and expanded existing ones.~~

~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

~~OFHP~~ GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanced the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations delivery credit.

Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-

party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

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Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority

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investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

[8] Ontario Power Generation
[9] Ontario Power Generation
[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these ~~new~~ investments ha~~v~~ed grown too quickly, which is why we have moved forward with a plan that w~~ould~~ill ensure costs are shared more evenly over the years ahead.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

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~~Second. The province has introduced rate relief programs and expanded existing ones.~~

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Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanc~~ing~~ed the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~ Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

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Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat

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Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and

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preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing

customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Fw_ SCOPA Status Table.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Armstrong, Hillary (ENERGY)
Subject:	Fw: SCOPA Status Table
Date:	January 22, 2018 10:35:12 AM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_Draft-DM PreBrief.docx

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From: Hosick, Sarah (TBS) <Sarah.Hosick@ontario.ca>
Sent: Monday, January 22, 2018 10:17 AM
To: Schlaepfer, Martin (ENERGY)
Subject: SCOPA Status Table

Hi Martin,

Attached is the status table that was discussed at the joint DM SCOPA meeting on Friday. If any other edits needed from your ministry or agencies (i.e., your ministry confirming with OPG, IESO) can you please let me know by the end of the week?

Also Cindy is wondering if you are able to find out when the February IESO audit committee and board meetings are?

Happy to discuss

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

Status Table_Ch 2 of AG AR_SCOPA_Draft-DM Pre.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Aanalysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

CONFIDENTIAL DRAFT FOR DISCUSSION

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

CONFIDENTIAL DRAFT FOR DISCUSSION

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

CONFIDENTIAL DRAFT FOR DISCUSSION

• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

CONFIDENTIAL DRAFT FOR DISCUSSION

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Fw_ SCOPA _ Chapter 3 Products_1.pdf

From:	Cayley, Daniel (ENERGY)
To:	Lightbody, Ava (ENERGY)
Cc:	Ho, Larissa (ENERGY)
Subject:	Fw: SCOPA / Chapter 3 Products
Date:	February 8, 2018 4:23:07 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Draft.docx

Ava - please fill in the attached as per below and share with Larissa tomorrow morning (I am away tomorrow).

Thanks,

Daniel

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Thursday, February 8, 2018 3:57 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA / Chapter 3 Products

Hi Guys –
Please fill out our section of the attached table and return by tomorrow morning. Was hoping we could look once I received IESO and OEB content, but I still don't have anything.

HC

Status Table_Ch 3 of AG AR_SCOPA_Draft_2.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

Fw_ SCOPA chapter 3 QA revisions(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Cayley, Daniel (ENERGY)
Subject:	Fw: SCOPA chapter 3 QA revisions
Date:	March 5, 2018 5:25:31 PM
Attachments:	SCOPA Chapter 3 - March 5 - OEB ESPD.docx

What he's reviewing.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Monday, March 5, 2018 5:01 PM
To: Hume, Steen (ENERGY)
Subject: Fw: SCOPA chapter 3 QA revisions

Consolidated QA.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>
Sent: Monday, March 5, 2018 5:00 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: SCOPA chapter 3 QA revisions

I've rejected Martine's edit on OEB enforcement of market rules. I think it is germane to the review process, and I've spoken with her about it. Edits are made on this consolidated version.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 4:27 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA chapter 3 QA revisions

Hi Guys –
Please review the OEB edits on page 3 and let me know if you're ok with these.

HC

From: Martine Band [mailto:Martine.Band@oeb.ca]
Sent: March 5, 2018 4:20 PM
To: Cox, Hilary (ENERGY); Neil Brodie
Cc: Mary Anne Aldred
Subject: RE: SCOPA chapter 3 QA revisions

Hi Hilary,

The attached has some edits in relation to 3 items (two of which are repeated in more than one place), all of which are offered for factual accuracy. The one that is likely not intuitive in that regard relates to references to a review of OEB authority regarding enforcement of the market rules. I don't really know the driver behind the inclusion of those references, and am not looking to pre-empt what the Ministry may want to examine in that regard. But I did feel that I should note that the OEB does have authority in relation to market participant non-compliance with the market rules, in case that affects anything on your end.

Happy to further explain this or the other edits if helpful.

Martine

Martine M. N. Band
Associate General Counsel
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Direct Line: 416.440.8117
E-mail: martine.band@oeb.ca

Please note my email address has changed to Martine.Band@oeb.ca. Please update your address book accordingly.

From: Cox, Hilary (ENERGY) [mailto:Hilary.Cox@ontario.ca]
Sent: Monday, March 5, 2018 2:56 PM
To: Martine Band <Martine.Band@oeb.ca>; Neil Brodie <Neil.Brodie@oeb.ca>
Cc: Mary Anne Aldred <MaryAnne.Aldred@oeb.ca>
Subject: SCOPA chapter 3 QA revisions

Hi Martine –
I understand you had made some edits to the QA package for chapter 3. Grateful if you can send those along at your earliest convenience.

Many thanks,

Hilary

This electronic transmission, including any accompanying attachments, may contain information that is confidential, privileged and/or exempt from disclosure under applicable law, and is intended only for the recipient(s) named above. Any distribution, review, dissemination or copying of the contents of this communication by anyone other than the intended recipient(s) is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail and permanently delete the copy you have received.

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SCOPA Chapter 3 - March 5 - OEB ESPD_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

~~Additional Legislative Power~~Roles and legislative powers ~~for~~of OEB, MSP and MACD:

Commented [LA(1]: Edited for more precision – MSP is not necessarily being considered for additional legislative authority, nor was this the AG's recommendation

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants, and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

~~Additional Legislative Power~~ Roles and legislative powers ~~for~~ of OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide ~~MSP~~ OEB or MACD with additional powers?

Commented [LA(2]: The AG's recommendation pertains to the board's legislative powers (not msp's) in relation to amending market rules.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, , including:

- Reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence,

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- ~~and~~ Reviewing ~~t~~the ~~role and~~ authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure ~~potential~~any abuse of the market rules is adequately addressed. ~~in the market rule amendment process, particularly in instances of potential abuse of the market rules.~~

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB~~, MSP~~ and MACD is under review as highlighted i~~s~~n our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why is Ontario Power Generation, a government-controlled entity, under investigation for gaming the electricity market? What is the status of the investigation?

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Placeholder for input from IESO.

Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Fw_ SCOPA chapter 3 QA revisions_1.pdf

From: Cox, Hilary (ENERGY)
To: Hume, Steen (ENERGY)
Subject: Fw: SCOPA chapter 3 QA revisions
Date: March 5, 2018 5:01:15 PM
Attachments: SCOPA Chapter 3 - March 5 - OEB ESPD.docx

Consolidated QA.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>
Sent: Monday, March 5, 2018 5:00 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: SCOPA chapter 3 QA revisions

I've rejected Martine's edit on OEB enforcement of market rules. I think it is germane to the review process, and I've spoken with her about it. Edits are made on this consolidated version.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 4:27 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA chapter 3 QA revisions

Hi Guys –
Please review the OEB edits on page 3 and let me know if you're ok with these.

HC

From: Martine Band [mailto:Martine.Band@oeb.ca]
Sent: March 5, 2018 4:20 PM
To: Cox, Hilary (ENERGY); Neil Brodie
Cc: Mary Anne Aldred
Subject: RE: SCOPA chapter 3 QA revisions

Hi Hilary,

The attached has some edits in relation to 3 items (two of which are repeated in more than one place), all of which are offered for factual accuracy. The one that is likely not intuitive in that regard relates to references to a review of OEB authority regarding enforcement of the market rules. I don't really know the driver behind the inclusion of those references, and am not looking to pre-empt what the Ministry may want to examine in that regard. But I did feel that

I should note that the OEB does have authority in relation to market participant non-compliance with the market rules, in case that affects anything on your end.

Happy to further explain this or the other edits if helpful.

Martine

Martine M. N. Band
Associate General Counsel
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Direct Line: 416.440.8117
E-mail: martine.band@oeb.ca

Please note my email address has changed to Martine.Band@oeb.ca. Please update your address book accordingly.

From: Cox, Hilary (ENERGY) [mailto:Hilary.Cox@ontario.ca]
Sent: Monday, March 5, 2018 2:56 PM
To: Martine Band <Martine.Band@oeb.ca>; Neil Brodie <Neil.Brodie@oeb.ca>
Cc: Mary Anne Aldred <MaryAnne.Aldred@oeb.ca>
Subject: SCOPA chapter 3 QA revisions

Hi Martine –
I understand you had made some edits to the QA package for chapter 3. Grateful if you can send those along at your earliest convenience.

Many thanks,

Hilary

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SCOPA Chapter 3 - March 5 - OEB ESPD_1_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

~~Additional Legislative Power~~Roles and legislative powers ~~for~~of OEB, MSP and MACD:

Commented [LA(1]: Edited for more precision – MSP is not necessarily being considered for additional legislative authority, nor was this the AG's recommendation

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants, and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

~~Additional Legislative Power~~ Roles and legislative powers ~~for~~ of OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide ~~MSP~~ OEB or MACD with additional powers?

Commented [LA(2]: The AG's recommendation pertains to the board's legislative powers (not msp's) in relation to amending market rules.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, , including:

- Reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence,

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- ~~and~~ Reviewing ~~t~~the ~~role and~~ authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure ~~potential~~any abuse of the market rules is adequately addressed. ~~in the market rule amendment process, particularly in instances of potential abuse of the market rules.~~

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB~~, MSP~~ and MACD is under review as highlighted i~~s~~n our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why is Ontario Power Generation, a government-controlled entity, under investigation for gaming the electricity market? What is the status of the investigation?

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Placeholder for input from IESO.

Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Fw_ SCOPA_QA_Friendly_ENERGY (2) _1.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA_QA_Friendly_ENERGY (2) (2)
Date: January 26, 2018 2:50:13 PM
Attachments: SCOPA_QA_Friendly_ENERGY (2) (2).docx

Steen's comments on the chapter 2 friendly.

HC

SCOPA_QA_Friendly_ENERGY (2) (2)_1.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of OFHP

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills ~~Bills~~ have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

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In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take ~~necessayr~~necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

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OPG was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG will arrange for the third party debt, and supplement this funding through the Province and additional funds contributed by OPG, through increased equity in the Trust at equivalent market rates.

DRAFT

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion in segregated nuclear funds to manage nuclear liabilities and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs ~~totallingtotaling~~ more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs

OPG is uniquely positioned to be the Financial Services Managers, understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), and has experience in Treasury operations in the marketplace including relationships with the credit rating agencies.

~~OPG has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.~~

~~The total estimated cost of the program has been revised downwards substantially to reflect revised inputs, including updated long-term cost projections for the electricity system and residential bills provided by the Independent Electricity System Operator (IESO). Current government estimates forecast that the peak debt over the thirty-year life of OFHP will be approximately $20 billion. The preliminary estimate from March 2017 was about $28 billion.~~

~~A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions. Each of these factors will need to be managed and monitored closely.~~

~~With respect to the $4 billion figure referenced by the Financial Accountability Office (FAO), it should be noted that the report was based on the initial Ministry of Energy estimates from March 2017. The FAO simply took an estimated cost of borrowing for the Ontario Financing Authority (OFA) and OPG and applied the difference to debt estimates based on Ministry of Energy data from March.~~

~~Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.~~

~~The FAO report itself concluded by saying "the FAO's estimates are subject to many assumptions and uncertainties (…) Fiscal impact may differ significantly from the FAO's estimates."~~

~~The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long-term~~long term~~. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

Commented [HS(1]: We need a better closing section.

This is friendly questions, not sure why we're highlighting these points.

DRAFT

Fw_ Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	Fw: Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE
Date:	February 13, 2018 3:09:34 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.docx

Hi Guys -

A couple edits from Steen on the Ch. 3 status table. Appreciate these back by tomorrow at noon.

HC

Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	The Ministry is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules, particularly in instances where the potential for abuse exists. This review is expected to be completed this year.
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move

Commented [HS(1]: Do we want to highlight this point.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly IESO reports and the quarterly Ontario Energy Report.
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead The Ministry is committed to strong electricity market oversight in Ontario, and is working closely with IESO in reviewing the appropriate role and legislative authority of MACD regarding oversight of Ontario's electricity market, in order to ensure effective and

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	efficient investigations into instances of potential abuse of the market rules.
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

Fw_ Weekly Rate Mitigation Meeting.pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY)
Subject:	Fw: Weekly Rate Mitigation Meeting
Date:	October 11, 2017 6:09:40 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 9_Tracked.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 11.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Tracked (2).....docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

FYI for tomorrow morning.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Wednesday, October 11, 2017 6:08 PM
To: Schlaepfer, Martin (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: Weekly Rate Mitigation Meeting

Hi Martin: attached are the products for tomorrow's rate mitigation meeting:

1. Agenda
2. Matrix (tracked and clean)
3. Business (tracked and clean)

For broader circulation to the group, I would suggest sending around the clean docs rather than tracked.

Thanks, Steen

2017 Outstanding Business Issues - Week of O_8.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

2017 Outstanding Business Issues - Week of O_9.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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Agenda_Weekly Rate Mitig Implmentation Group__7.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 11, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees and Interest Payments (ENERGY)
    - Letter of Credit (ENERGY / IESO / OPG)

2) Report

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-27 Consolidated - OFHP Matrix - Week _15.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

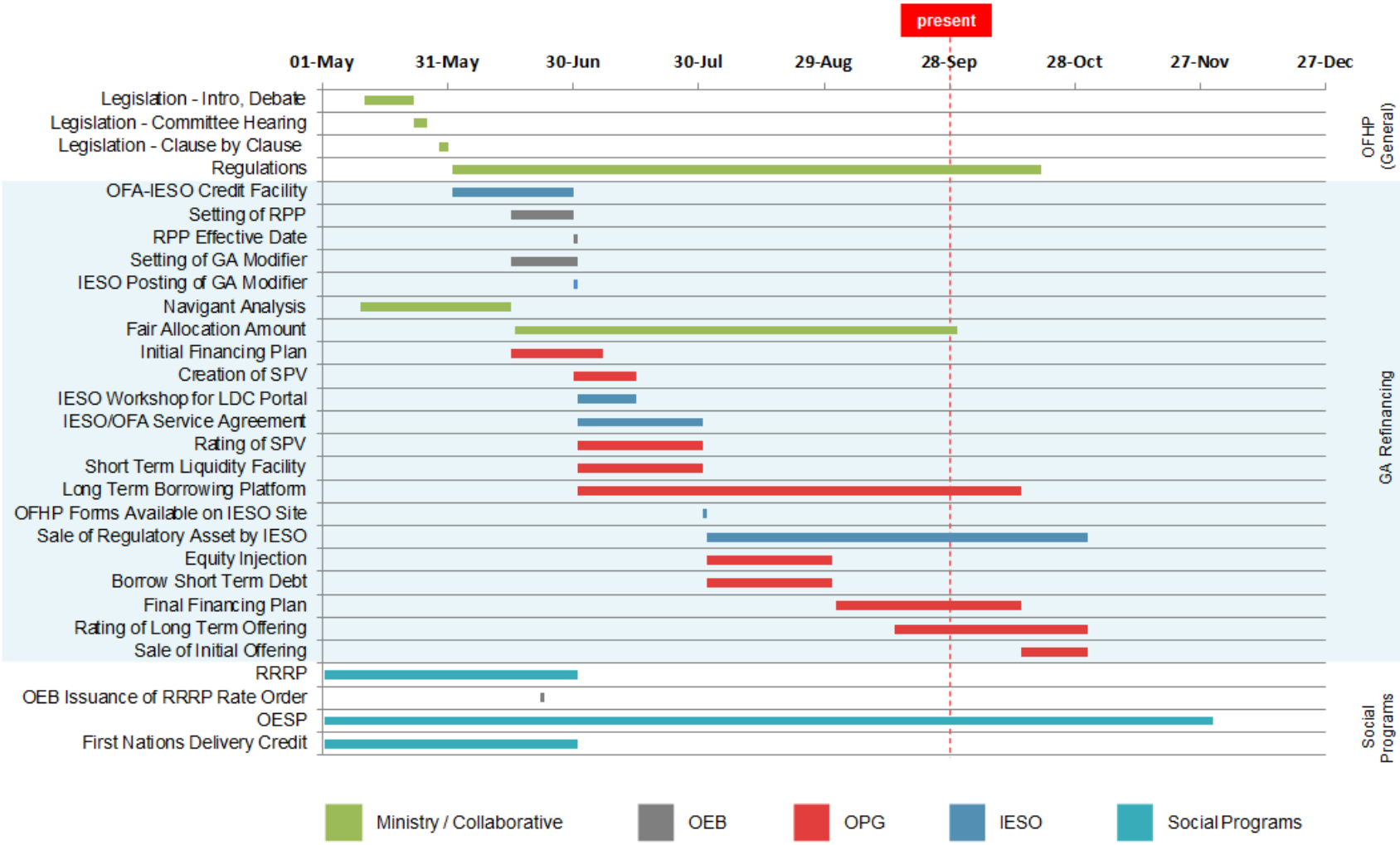
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017-09-27 Consolidated - OFHP Matrix - Week _16.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
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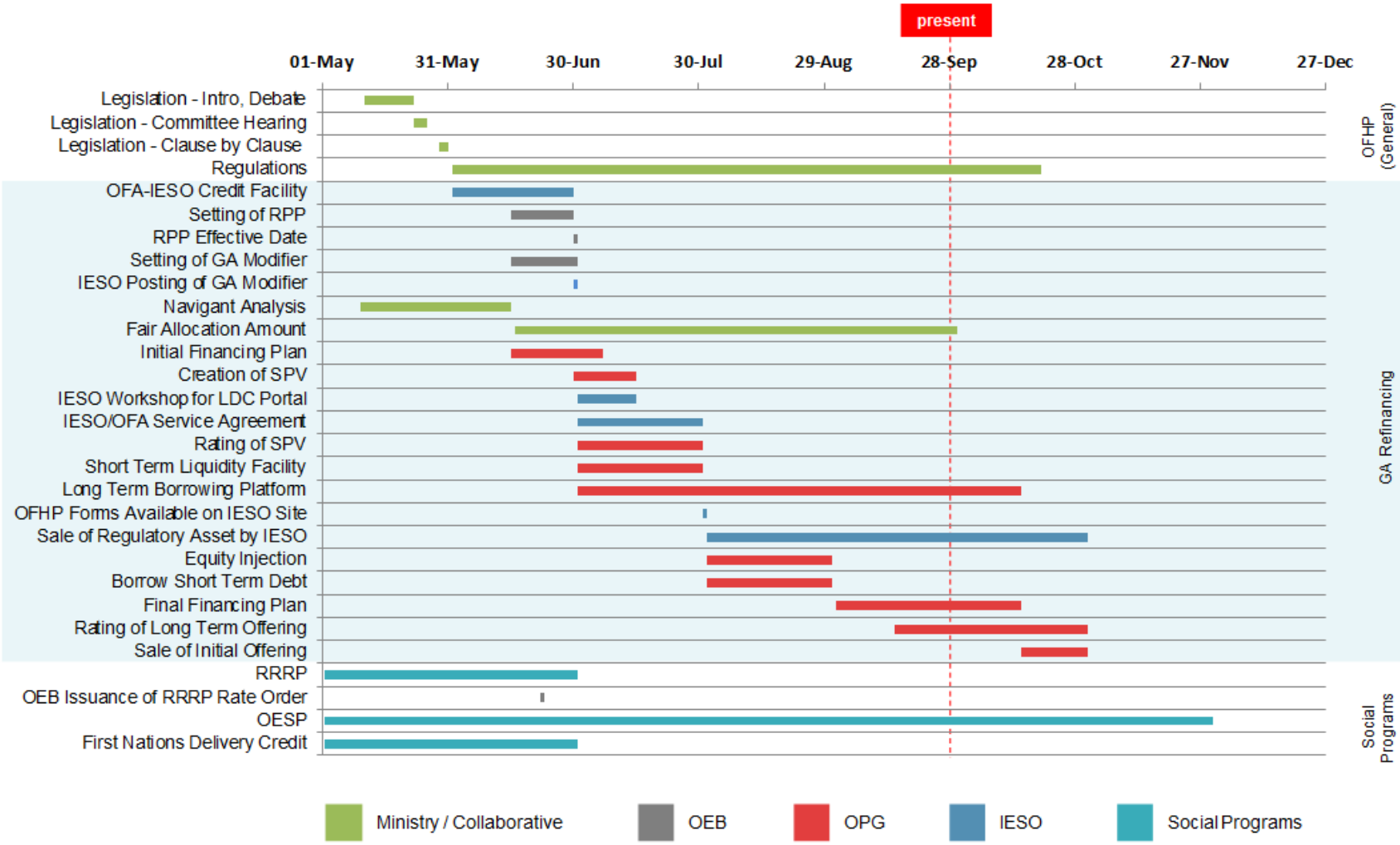
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Fwd_ KPMG & E&Y.pdf

From: Kim Marshall
To: Schlaepfer, Martin (ENERGY)
Subject: Fwd: KPMG & E&Y
Date: October 4, 2017 12:14:34 PM

For late tues meeting or separately?

Sent from my iPad

Begin forwarded message:

> **From:** Peter Gregg <Peter.Gregg@ieso.ca>
> **Date:** October 4, 2017 at 11:26:57 AM EDT
> **To:** Kim Marshall <Kim.Marshall@ieso.ca>
> **Subject: Fwd: KPMG & E&Y**
>
> See below.
>
> Sent from my iPhone
>
> Begin forwarded message:
>
> > **From:** "Teliszewsky, Andrew (ENERGY)" <Andrew.Teliszewsky@ontario.ca>
> > **Date:** October 4, 2017 at 10:21:36 AM EDT
> > **To:** Peter Gregg <Peter.Gregg@ieso.ca>, "LYASH Jeffrey - PRESIDENT (jeffrey.lyash@opg.com)" <jeffrey.lyash@opg.com>, "Imbrogno, Serge (ENERGY)" <Serge.Imbrogno@ontario.ca>
> > **Cc:** "Baker, Carys (ENERGY)" <Carys.Baker@ontario.ca>, "Schlaepfer, Martin (ENERGY)" <Martin.Schlaepfer@ontario.ca>, "Bungaro-Yemec, Francesca (ENERGY)" <Francesca.Bungaro-Yemec@ontario.ca>
> > **Subject: KPMG & E&Y**
> >
> > Good Morning:
> >
> > We would like to hold a meeting next week with representatives from KMPG (IESO) as well as E&Y (OPG) regarding the Ontario Fair Hydro Plan.
> >
> > Having Peter or Kim plus Jeff or Ken attend as well will be helpful.
> >
> > Many thanks, in advance.
> >
> > Andrew
> >
> > Andrew Teliszewsky

Chief of Staff | Office of Hon. Glenn Thibeault
Ministry of Energy
andrew.teliszewsky@ontario.ca
416-327-3550 (o)
416-436-6370 (m)

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Fwd_ Rate Mitigation Implementation Group.pdf

From:	Edwards, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Subject:	Fwd: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:01:28 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida us.docx

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Kaili,

Are you OK with the changes to the OFHP matrix?

Thanks.

Matt Edwards

From: "Syed, Usman (ENERGY)" <Usman.Syed@ontario.ca>
Sent: Oct 11, 2017 3:00 PM
To: "Edwards, Matthew (ENERGY)" <Matthew.Edwards@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group
Cc: "Schwab-Pflug, Emma (ENERGY)" <Emma.Schwab-Pflug@ontario.ca>

Here you go…

From: Edwards, Matthew (ENERGY)
Sent: October 11, 2017 8:46 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Group

Is there anything to update in the OFHP Matrix? We would need this back for Kaili around 3pm.

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –
Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _17.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

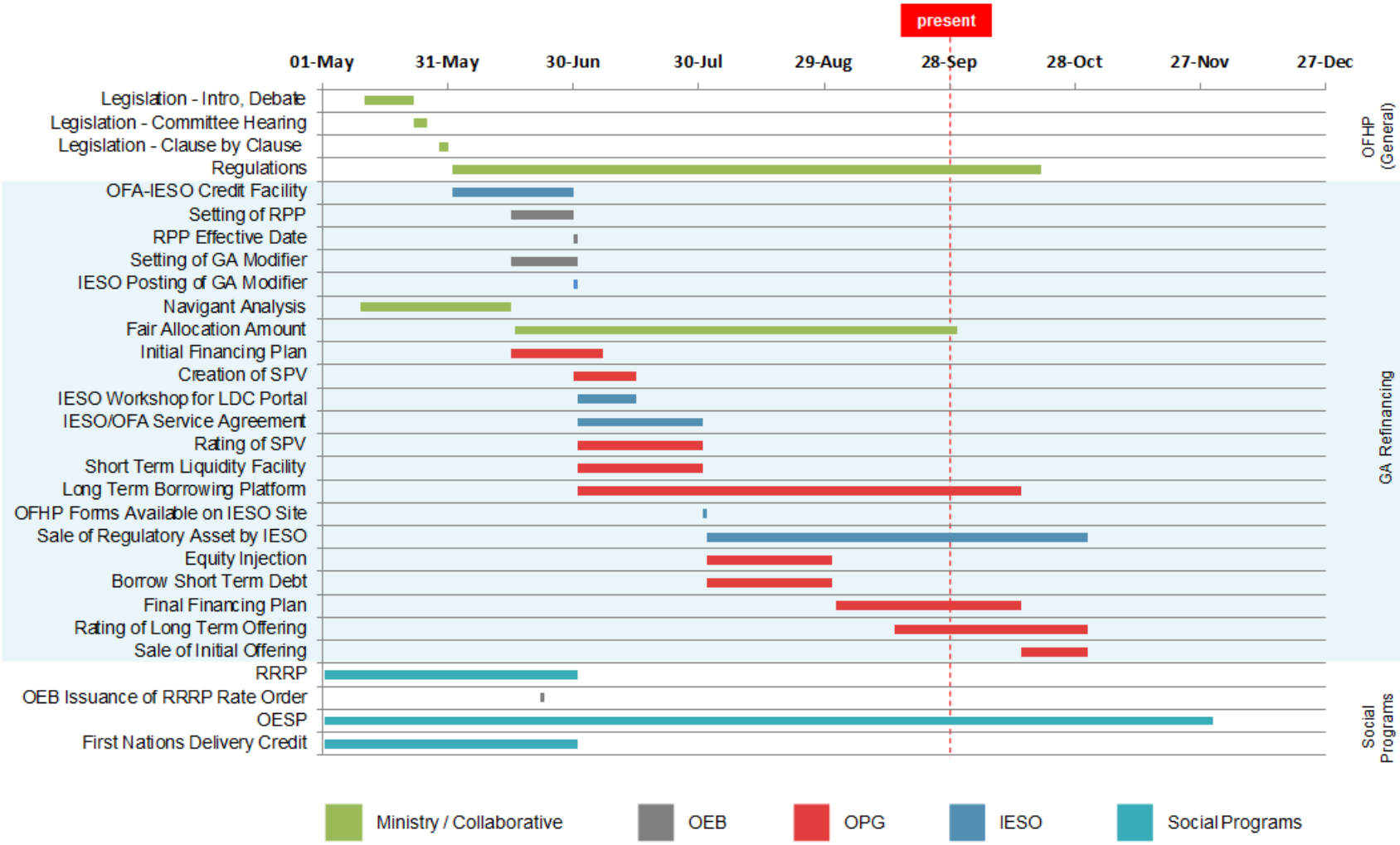
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister ~~Target for program launch~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	• ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Matrix.pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY); Schlaepfer, Martin (ENERGY); Nalasco, Adrian (ENERGY)
Subject: Matrix
Date: September 13, 2017 10:54:15 PM
Attachments: 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 copy.docx

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2017-09-08 Consolidated - OFHP Matrix - Week _17.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism ~~(regulatory line)~~ to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid ~~Week of~~ September ~~11~~ – Minister's Fair Allocation Amount letter~~, following preliminary discussions with OPG~~ • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

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Item	Key Deliverables / Considerations	Timing / Next Steps
	o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software	• Week of August 7 – follow-up with CRA on proposed wet signature solution

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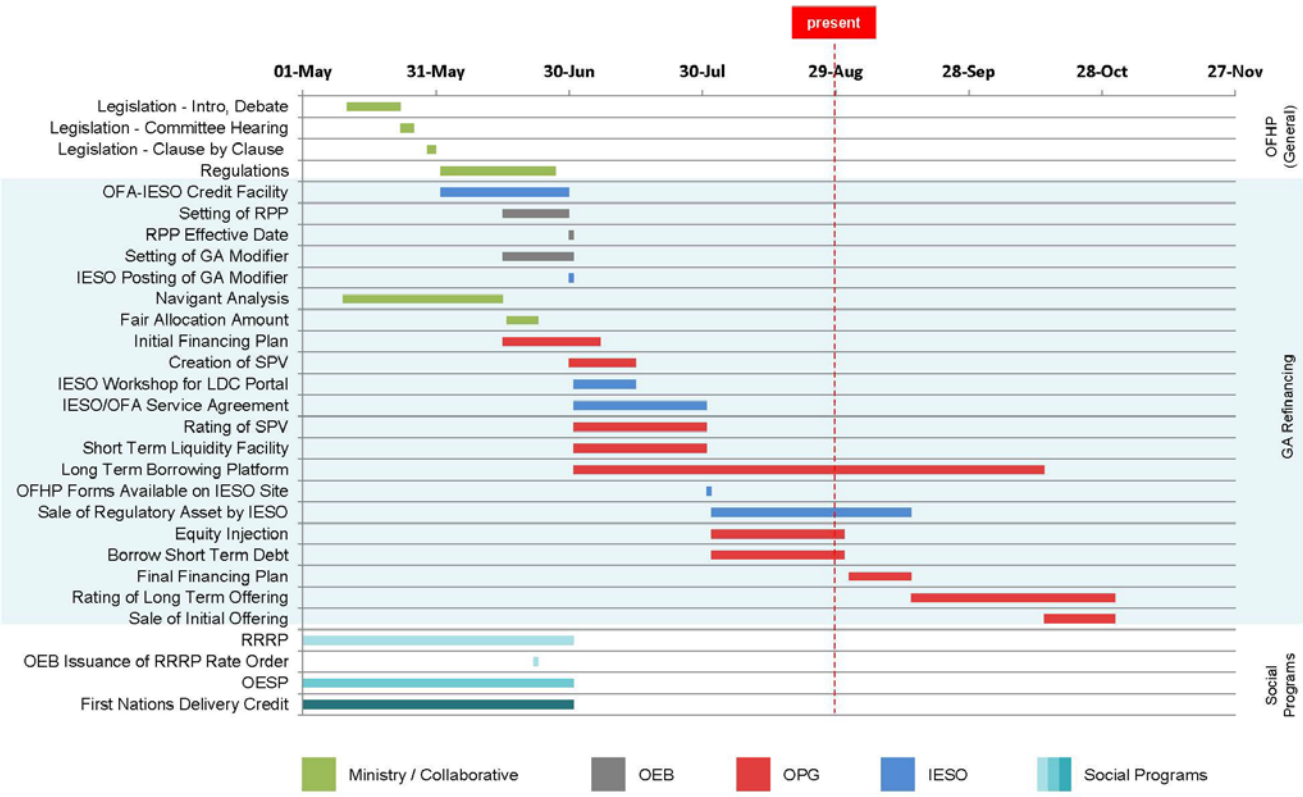
Item	Key Deliverables / Considerations	Timing / Next Steps
	solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:**	• Continue this work as part of

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Public Accounts Chapter 2 - Swim Lanes Document(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Berry, James (ENERGY); Whittington, Matt (ENERGY); Tresise, Landon (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Armstrong, Hillary (ENERGY); Nucciarone, Michael (ENERGY); Baker, Carys (ENERGY)
Subject:	Public Accounts Chapter 2 - Swim Lanes Document
Date:	January 18, 2018 1:29:00 PM
Attachments:	Copy of SCOPA_Swim Lanes_ENERGY.XLSX

Hi James, Matt, and Landon,

Tomorrow afternoon there is a DMs briefing with other ministries in preparation for our appearance before public accounts at the end of February on Chapter 2 of the AG's 2017 Annual Report.

TBS has asked us to take a look at a "swim lanes" document, which lays out the topics and responsibilities of each ministry for this chapter. We've made some proposed changes in the attached.

Let us know if you have any concerns, and we'll share this with TBS later this afternoon for tomorrow's briefing.

Thanks,
Martin

Copy of SCOPA_Swim Lanes_ENERGY_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Topic	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thomson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting Advisory Panel Compensation		Overall - Pension Asset Accounting	Details - Pension Asset Accounting	Details - Pension Asset Accounting Advisory Panel Compensation								
IESO Accounting							**IESO LEAD**					
Rec # 2 - IESO Market Accounts Rec #3 - IESO Rate-Regulated Accounting AG Audit of 2017 Statements ~~OPG/IESO 'Inappropriate' Expenses~~ ~~OPG Executive Compensation~~		Relationship with AG - AG Audit of 2017 Statements		OPCD decision to accept IESO market accounts OPCD decision to accept IESO rate-regulated accounting			OFHP Policy Overview ~~OPG/IESO 'Inappropriate' Expenses~~ ~~OPG Executive Compensation~~	OFHP Policy Overview	~~Further details – 'Inappropriate' Expenses~~ ~~Further details - OPG Executive Compensation~~		IESO's Role in OFHP / General Overview ~~IESO Rate-Regulated Accounting~~	IESO Market Accounts IESO Rate-Regulated Acocunting AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 - OFHP Accounting Rec #6 - 'Legislated Accounting' Rec #9 - Arm's Length Trusts Records Disclosure / Process Re-design of hydro bills		Ministry FOI/OPQ	Decision to accept OFHP accounting OFHP - 'legislated' accounting		Financing Structure	Financing Structure	OFHP Policy Overview ~~Arm's Length Trusts~~ Records Disclosure / Process Followed Re-design of hydro bills	OFHP Policy Overview	OPG's Role in OFHP / General Overview ~~OPG Trust~~ Records Disclosure / Process Followed	OPG Finaning Struture / Transaction OPG Accounting / Trust	IESO's Role in OFHP / General Overview Records Disclosure / Process Followed	IESO Financing Struture
Pre-Election Report					**PRE-ELECTION REPORT LEAD**							
Rec #10 - Pre-Election Report on Ontario's Finances			Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #6 - Province's Debt Burden Financial Accountability Officer Reports Credit Ratings					Province's Debt Burden Financial Accountability Officer Reports Credit Ratings	Province's Debt Burden; Repayment plan Financial Accountability Officer Reports Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #7 External Advisors Rec #10 Timeline of Finalization of Financial Statements Audit Opinion		External Advisors Timeline of Finalization of Financial Statements	Timeline of finanlization of financial statements Audit Opinions	Audit Opinions								
Other Topics												

DRAFT

Public Accounts Chapter 2 - Swim Lanes Document.pdf

From:	Armstrong, Hillary (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	Public Accounts Chapter 2 - Swim Lanes Document
Date:	January 18, 2018 1:25:50 PM
Attachments:	Copy of SCOPA_Swim Lanes_ENERGY.XLSX

Hi Martin,

Here's an email you could share with MO.

Thanks,
Hillary

Hi Matt, James and Landon,

Tomorrow afternoon there is a DMs briefing with other ministries in preparation for our appearance before public accounts at the end of February on Chapter 2 of the AG's 2017 Annual Report.

TBS has asked us to take a look at a "swim lanes" document, which lays out the topics and responsibilities of each ministry for this chapter.

Let us know if you have any concerns, and we'll share this with TBS later this afternoon for tomorrow's briefing.

Thanks,
Martin

Copy of SCOPA_Swim Lanes_ENERGY_3.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Topic	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thomson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting Advisory Panel Compensation		Overall - Pension Asset Accounting	Details - Pension Asset Accounting	Details - Pension Asset Accounting Advisory Panel Compensation								
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Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 - OFHP Accounting Rec #6 - 'Legislated Accounting' Rec #9 - Arm's Length Trusts Records Disclosure / Process Re-design of hydro bills		Ministry FOI/OPQ	Decision to accept OFHP accounting OFHP - 'legislated' accounting		Financing Structure	Financing Structure	OFHP Policy Overview ~~Arm's Length Trusts~~ Records Disclosure / Process Followed Re-design of hydro bills	OFHP Policy Overview	OPG's Role in OFHP / General Overview ~~OPG Trust~~ Records Disclosure / Process Followed	OPG Finaning Struture / Transaction OPG Accounting / Trust	IESO's Role in OFHP / General Overview Records Disclosure / Process Followed	IESO Financing Struture
Pre-Election Report					**PRE-ELECTION REPORT LEAD**							
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Rec #6 - Province's Debt Burden Financial Accountability Officer Reports Credit Ratings					Province's Debt Burden Financial Accountability Officer Reports Credit Ratings	Province's Debt Burden; Repayment plan Financial Accountability Officer Reports Credit Ratings						
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Other Topics												

DRAFT

Public Accounts _Chapter 2 Swim Lanes.pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Cox, Hilary (ENERGY)
Subject:	Public Accounts _Chapter 2 Swim Lanes
Date:	January 18, 2018 11:06:25 AM
Attachments:	Copy of SCOPA_Swim Lanes_ENERGY.XLSX

Hi Martin: attached are my edits to TBS's "swim lane" chart. Edits are in red. In the absence of having a lot detail on the overall approach, I've taken a light touch.

So that it can be part of tomorrow discussion with DMs, I'd like to send this back to TBS today if possible.

When you moment, can you give me a call. Thanks, Steen

Thanks,

Copy of SCOPA_Swim Lanes_ENERGY_4.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Topic	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thomson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
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Other Topics												

DRAFT

QA.pdf

From: Christie, Tim (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: QA
Date: October 17, 2017 1:56:29 PM

Daniel, a few QAs needed out of the technical briefing

Q What is the difference between how the AG characterizes the debt and how the government characterizes the debt?

A AG uses 3 phases and expresses principal and interest separately, ministry looks at peak debt including principal and interest

Q Why did the government need to introduce legislation to enact OFHP?

A Needed authority to move social program funding, give OEB guidance on rates, etc. Run this one by LSB.

REVIEW - Rate Mitigation Implementation .pdf

From:	Kolodziej, Monika (ENERGY)
To:	Syed, Usman (ENERGY)
Subject:	REVIEW - Rate Mitigation Implementation
Date:	October 27, 2017 5:13:47 PM
Attachments:	2017-10-26 Consolidated - OFHP Matrix - Week of October 23.docx
Importance:	High

Hi Usman,

Please review Emma's email re: rate mitigation today if possible (see the tracked edits to the attachment). Matt E. is looking for this.

Monika

From: Schwab-Pflug, Emma (ENERGY)
Sent: October-27-17 1:35 PM
To: Syed, Usman (ENERGY)
Cc: Di Tullio, Yvonne (ENERGY); Qureshi, Musab (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Usman, please see tracked updates attached. Due to ADMO midday. Thanks, Emma

---

From: Di Tullio, Yvonne (ENERGY)
Sent: October-27-17 11:51 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: RE: Rate Mitigation Implementation

Here you are Emma. I went a bit more detailed than the action items list; for your consideration. thanks

---

From: Schwab-Pflug, Emma (ENERGY)
Sent: October-27-17 11:25 AM
To: Di Tullio, Yvonne (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation

Apologies, Yvonne, I've actioned this very later. Could you kindly update the two attached documents for as soon as you're able this afternoon? I think this should be quite straightforward, pulling from the news release.

Thank you,
Emma

From: Edwards, Matthew (ENERGY)
Sent: October-26-17 4:18 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Can you update the Affordability Fund items for this?

Due noon tomorrow.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation

Hi All –
Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

2017-10-26 Consolidated - OFHP Matrix - Week _2.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

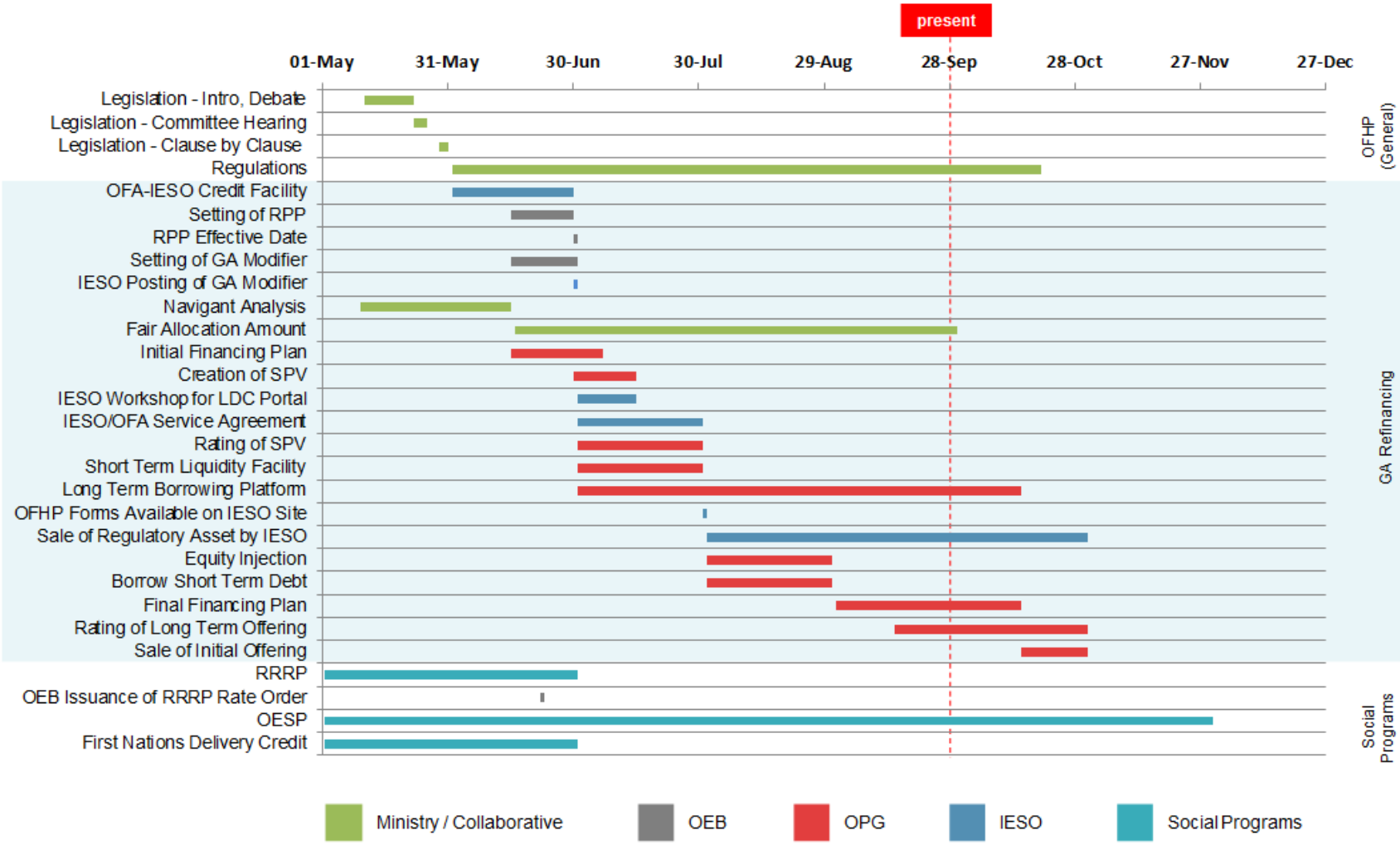
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications.	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for review and approval by the Board of Trustees (have engaged Accenture to assist)	~~**October 2017:**~~ ~~• Soft launch of microsite and 1-800 number Oct 12~~ ~~• Oct. 243 formal announcement in Hamilton involving the Minister~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017 • Oct. 12: Soft launch of microsite and 1-800 number. • Oct. 24 formal announcement in Hamilton involving the Minister of Energy. • As of Oct. 23, 66 applications from 6 LDCs processed through the AFT program. • On Oct. 24, the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions.	will revisit design elements every 6 months and measures every 3 months • ENERGY has~~is~~ amended~~ing~~ the TPA with the Affordability Fund Trust to ~~request~~ require use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report

Item	Key Deliverables / Considerations	Timing / Next Steps
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

REVISED - scope document for SCOPA briefing.pdf

From:	Ue, Allison (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Skoberne, Vivienne (TBS); Nelson, Dane (TBS)
Subject:	REVISED - scope document for SCOPA briefing
Date:	January 19, 2018 12:39:05 PM
Attachments:	SCOPA_Swim Lanes_DRAFT_20180119 v3.xlsx

Hi there

Attached is the revised swim lanes document for this afternoon's meeting.

FYI – we have moved the meeting to room 6501 to accommodate folks.

Thanks,
Allison

SCOPA_Swim Lanes_DRAFT_20180119 v3_1.pdf

DRAFT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #3 IESO Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust	Financing Structure	Financing Structure				OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

RE_ ADM approved SCOPA Chapter 2 materials(1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: ADM approved SCOPA Chapter 2 materials
Date:	February 2, 2018 1:33:34 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE.docx SCOPA QAs_MOE_20180129 - DM Edits - EPE.docx

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Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-01-18 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _13.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   ~~The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.~~ Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   We introduced OFHP because we heard from Ontario's that electricity prices had risen too quickly and relief was needed. Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices increased because our energy system is being transformed ~~– since~~ more than $70 billion has been invested to modernize the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.[3] The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by ensuring that costs are shared more evenly over the years ahead.~~spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   The GA is a mechanism that recovers costs associated with running Ontario's generation fleet, as well as the cost of conservation programs. The majority of the province's electricity generators have 20-year contracts. Third party experts have confirmed that many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and

~~[1] Ministry of Energy, *2017 Long-Term Energy Plan*~~
~~[2] Ministry of Energy, *2017 Long-Term Energy Plan*~~
[3] Ministry of Energy, *2017 Long-Term Energy Plan*

will benefit future ratepayers by reducing the need to finance the development of new generating assets. There is an opportunity to recognize the long-term benefit of these assets to the electricity system and "bring forward" that benefit for ratepayers today by deferring some of the current costs.

We had asked one generation – today's generation – to unfairly shoulder the burden of a large portion of the costs of our investments in the electricity system. GA refinancing works to spread those costs over the expected lifecycle of the infrastructure that has been built, ensuring they are fairly allocated across the generations of consumers that will benefit from them.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. ~~This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

On the other hand, as part of OFHP, we decided to shift recovery for certain costs off the rate-base and onto the tax-base – costs associated with the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection.

We made that policy decision based on the recognition that these programs are for the common good and are appropriately supported by the tax base

~~.Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

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~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

Commented [AL1]: Moved up/rearranged

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

~~In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.~~

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

Commented [AL2]: Moved down with some tweaks

It is also important to note that the rate-base has a different risk profile than the tax-base, which would be reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanced the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations delivery credit.

Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

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OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

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OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

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From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

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In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that any deferred electricity system costs should be borne by the rate-base and not the tax-base.
- GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.
- ~~The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these ~~new~~ investments ha~~ved~~ grown too quickly, which is why we have moved forward with a plan that w~~ould~~ill ensure costs are shared more evenly over the years ahead.

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

~~In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.~~

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second, The province has introduced rate relief programs and expanded existing ones.~~

~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

~~OFHP~~ GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanced the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations delivery credit.

Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-

party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

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Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority

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investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

[8] Ontario Power Generation
[9] Ontario Power Generation
[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.

The government heard from Ontarians across the province that the costs of these ~~new~~ investments ha~~v~~ed grown too quickly, which is why we have moved forward with a plan that w~~ould~~ill ensure costs are shared more evenly over the years ahead.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

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~~Second. The province has introduced rate relief programs and expanded existing ones.~~

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Ontario's Fair Hydro Plan also includes several additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the majority of Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanc~~ing~~ed the existing OESP, is providing enhanced Distribution Rate Protection, and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~ Ontario's Fair Hydro Plan includes measures that support larger consumers, including the expansion of the Industrial Conservation Initiative.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

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Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat

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Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and

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preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing

customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

DRAFT

RE_ ADM approved SCOPA Chapter 2 materials(2).pdf

From: Lightbody, Ava (ENERGY)
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials
Date: February 2, 2018 3:33:07 PM

Hi Tim,

In order to speed the process, for review is the overall SCOPA QA. \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\revised again\SCOPA QAs_MOE_20180129 - DM Edits - EPEv2.docx

Friendly to come shortly.

Ava

From: Christie, Tim (ENERGY)
Sent: February-02-18 1:34 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc: Lightbody, Ava (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials

Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-01-18 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

RE_ ADM approved SCOPA Chapter 2 materials(3).pdf

From: Lightbody, Ava (ENERGY)
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials
Date: February 2, 2018 3:55:21 PM

Hi Tim,

SCOPA Friendly for review:
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\revised again\SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPEv2.docx

Thanks,
Ava

From: Lightbody, Ava (ENERGY)
Sent: February-02-18 3:33 PM
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials

Hi Tim,

In order to speed the process, for review is the overall SCOPA QA.
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\revised again\SCOPA QAs_MOE_20180129 - DM Edits - EPEv2.docx

Friendly to come shortly.

Ava

From: Christie, Tim (ENERGY)
Sent: February-02-18 1:34 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc: Lightbody, Ava (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials

Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-01-18 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets

duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

RE_ ADM approved SCOPA Chapter 2 materials(4).pdf

From: Lightbody, Ava (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials
Date: February 2, 2018 4:46:12 PM

Hello,

Friendly for review.

This is based on the version with Steen's edits. I did some reordering so the flow was logical but didn't change the content:
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\v3\ADM version\SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -ADM -v1.docx

Here is a second version with Steen's edits, where I only made a grammatical tweak:
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\v3\ADM version\SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - ADM v2.docx

Let me know what you think, or if we need a different approach than either of these.

Ava

From: Cox, Hilary (ENERGY)
Sent: February-02-18 4:14 PM
To: Lightbody, Ava (ENERGY)
Cc: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Ok, here's the version of the friendlies to edit – and below is the rationale. Let's use the comms bullets provided and see if we have to layer in the below language (as extra to what Comms has) and we should be good.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 1, 2018 11:22 AM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi there,

The Deputy has reviewed the Q&As and for the first friendly question, are you able to convey the two parts of the OFHP, the social aspect moving programs from the rate base to the tax base (e.g. OESP) as well the global adjustment portion with the

rational that today's ratepayer was paying too much and costs would shift to future years to appropriately reflect the extended life of the assets.

Hoping that this narrative is off the shelf, as the Deputy recalls positioning the OFHP in this way previously.

This narrative could be replicated for the OFHP questions in both documents.

Happy to discuss if you have any questions.
Thanks,
Mike

From: Cox, Hilary (ENERGY)
Sent: January 30, 2018 4:58 PM
To: Hendy, Adam (ENERGY)
Cc: Nucciarone, Michael (ENERGY)
Subject: ADM approved SCOPA Chapter 2 materials

Hi Comms and DMO –
Attached is the consolidated ESPD ADM approved package of SCOPA Chapter 2 materials.

HC

RE_ ADM approved SCOPA Chapter 2 materials.pdf

From: Lightbody, Ava (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: RE: ADM approved SCOPA Chapter 2 materials
Date: February 1, 2018 4:50:32 PM

Hi Daniel,

Here is the revised SCOPA ch 2 friendly. I tried to work in the extra content they provided. Reviewing the overall QAs now, so feel free to wait to review this one.
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\revised friendlys and general ch 2 QA\SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE.docx

Ava

From: Cayley, Daniel (ENERGY)
Sent: February-01-18 3:32 PM
To: Lightbody, Ava (ENERGY)
Cc: Ho, Larissa (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Ava – please review for tomorrow morning.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 1, 2018 3:30 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: ADM approved SCOPA Chapter 2 materials

Hi Guys –
Please review the attached revised friendlies and overall chapter 2 QA. DM asked for a few lines on the tax-basing of social programs, but this includes a number of bullets duplicating messaging that was already there as well.

For tomorrow afternoon if possible.

HC

RE_ Auditor General 2017 Annual Report - SCOPA ...(1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update
Date:	February 26, 2018 4:47:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE.docx

Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-26-18 1:48 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi Guys –
See attached and below for additional DM questions for Chapter 2 SCOPA. Steen is hoping we can turn by EOD.

HC

From: Hume, Steen (ENERGY)
Sent: February 26, 2018 1:40 PM
To: Cox, Hilary (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi. Spoke to the DM, he generally good with the attached package. But he's asked for three additions. I've provided comment boxes on what he's looking for.

Let's try and turn this around for today.

Thanks,

Auditor General 2017 Annual Report - SCOPA Ch_29.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Commented [HS(1]: Can we also include a paragraph that talks about the "spread" assumptions that the FAO used and what we used in initial modeling

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government of Ontario debt. This is based on an average Government of Ontario interest rate assumption of

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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4.5 per cent and an average OPG interest rate assumption of 5.4 per cent. As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, the Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357%.

Q. Why didn't you use the OEFC to do the borrowing?

Commented [HS(2]: Can we add this in. DM remembers an old Q&A package that we did on this topic.

The Q&A talked about OEFC was set-up to deal with the stranded debt.

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

Commented [HS(3]: In the TBS's Q&A package I recall there being Q&A that explains why IESO chose to change its accounting.

Include that content.

No. The IESO chose to begin recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, the IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion, and were highlighted in the IESO's annual report which was published online in March 2017.

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Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

[8] Ontario Financing Authority

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In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

[9] Ontario Power Generation
[10] Ontario Power Generation

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Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

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GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn’t the problem the amount on people’s bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That’s why the government developed Ontario’s Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and

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consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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RE_ Auditor General 2017 Annual Report - SCOPA ...(2).pdf

From:	Cayley, Daniel (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Lightbody, Ava (ENERGY); Christie, Tim (ENERGY)
Subject:	RE: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update
Date:	February 26, 2018 5:35:58 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE.docx

Hilary – please see attached – Tim has not had a chance to review.

Daniel

From: Christie, Tim (ENERGY)
Sent: February 26, 2018 4:47 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc: Lightbody, Ava (ENERGY)
Subject: RE: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-26-18 1:48 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi Guys –
See attached and below for additional DM questions for Chapter 2 SCOPA. Steen is hoping we can turn by EOD.

HC

From: Hume, Steen (ENERGY)
Sent: February 26, 2018 1:40 PM
To: Cox, Hilary (ENERGY)
Subject: FW: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update

Hi. Spoke to the DM, he generally good with the attached package. But he's asked for three additions. I've provided comment boxes on what he's looking for.

Let's try and turn this around for today.

Thanks,

Auditor General 2017 Annual Report - SCOPA Ch_30.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Commented [HS(1]: Can we also include a paragraph that talks about the "spread" assumptions that the FAO used and what we used in initial modeling

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government of Ontario debt. This is based on an average Government of Ontario interest rate assumption of

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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4.5 per cent and an average OPG interest rate assumption of 5.4 per cent. As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, the Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357%.

Q. Why didn't you use the OEFC to do the borrowing, similar to the DRC?

Commented [HS(2]: Can we add this in. DM remembers an old Q&A package that we did on this topic.

The Q&A talked about OEFC was set-up to deal with the stranded debt.

There are crucial differences between the two situations.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the CEA.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Commented [CD(3]: This is from the technical briefing QA with minimal changes to the first paragraph.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

Commented [HS(4]: In the TBS's Q&A package I recall there being Q&A that explains why IESO chose to change its accounting.

Include that content.

No. The IESO chose to begin recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, the IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion, and were highlighted in the IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

[8] Ontario Financing Authority

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OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;

[9] Ontario Power Generation
[10] Ontario Power Generation

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- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

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GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

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Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

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Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

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Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

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The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

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Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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RE_ Auditor General 2017 Annual Report - SCOPA ....pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version
Date:	February 23, 2018 4:38:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version-EPE.docx

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Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-23-18 1:31 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: Auditor General 2017 Annual Report - SCOPA Chapt 2 _Ene Version

Hi Guys -
Please review/edit as required attached chapter 2 QAs.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

Auditor General 2017 Annual Report - SCOPA Ch_31.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable ~~energy~~ electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for ~~the~~ a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017 and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent ~~on average~~for a typical ~~for~~ residential consumer~~s~~ and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, ~~Regulated Price Plan (RPP) eligible consumers,~~ including ~~families~~residents, small businesses~~ and~~, farms, and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

OFHP is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. ~~We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

~~In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.~~

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

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In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

~~The~~ Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM~~S~~) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy

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2017 report. The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

[6] Ministry of Energy
[7] Ministry of Energy
[8] Ontario Financing Authority

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OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that ~~would~~ are~~be~~ the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance:

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Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.~~In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.~~

The senior officials and staff were from:

- Ministry of Energy;

[9] Ontario Power Generation
[10] Ontario Power Generation

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- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with ~~Ontario Power Generation's~~OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meet accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

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No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate~~,~~ introduced in January 2017, which is ~~an~~ equivalent ~~amount~~ to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate was forecast to cost the government roughly $1 billion dollar per year.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted

Commented [HS(1]: Is this previously approved language?

Commented [LA(2R1]: Yes – this was taken from the ASC response we developed in the Fall and has been used in other instances.

Commented [HS(3]: Do we want to use the "equivalent" language?

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generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

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RE_ Follow-up_ SCOPA prep kick-off discussion(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Cayley, Daniel (ENERGY)
Cc:	Christie, Tim (ENERGY)
Subject:	RE: Follow-up: SCOPA prep kick-off discussion
Date:	January 19, 2018 9:40:46 AM
Attachments:	SCOPA_QA Overview_20180117_v3.docx

Looks good to me. I've tried switching out the second question in #1 (directed to DM) to read "Why is OPG best placed to minimize the cost of the overall program?" which is one of the asked questions in the friendlys list, and is almost the same as asking why they are well-positioned to be the FSM.

If no objections I'll pass this on.

Ava

From: Cayley, Daniel (ENERGY)
Sent: January 19, 2018 9:25 AM
To: Cox, Hilary (ENERGY)
Cc: Christie, Tim (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

Ava – my 3 proposed friendlies have been added to the attached. Please let me know if you have any thoughts before sharing with Steen.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 18, 2018 5:28 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion

Hello,

Some more SCOPA business. One of the required documents is the attached QA Overview, but all that has been requested of us with regards to it for now is to put forward three additional friendly questions by tomorrow morning asap (just questions, no responses). These are to be pulled from the attached Estimates friendlys.

Thanks, I don't totally understand it but hey.

Ava

From: Armstrong, Hillary (ENERGY)
Sent: January 18, 2018 5:12 PM

To: Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Berg, Denna (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

Hi Hilary,

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The Deputy's preference is to use Qs that we prepared for estimates. I've attached the full list of friendly questions for IESO and OPG for estimates this year. Can ESP take a look and identify the three questions you would like to put forward and share tomorrow morning? We don't need to worry about the responses right now.

Thanks,
Hillary

From: Hendy, Adam (ENERGY)
Sent: January-17-18 1:28 PM
To: Nucciarone, Michael (ENERGY); Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Armstrong, Hillary (ENERGY)
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If you guys have any questions feel free to get in contact with Hillary Artmstrong in DMO or myself.

Thanks,
Adam

From: Nucciarone, Michael (ENERGY)
Sent: January-16-18 10:00 AM
To: Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Hendy, Adam (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion

Hilary,

Looping you in regarding the swim-lane doc.

Give me a call if you have any questions.

Thanks,
Mike

From: Hendy, Adam (ENERGY)
Sent: January 16, 2018 9:49 AM
To: Nucciarone, Michael (ENERGY)
Cc: Lyon, Sam (ENERGY); Nutter, George (ENERGY); Whytock, John (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion

Hey Mike,

I'm sure you were already aware, but just passing along the below as FYI.

Thanks,
Adam

From: Tharani, Alisha (TBS)
Sent: January-16-18 9:45 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

Hi Peter, Adam,

Hope this message finds you well.

Touching base re: SCOPA prep –

As mentioned, if we could have your feedback on the "swim lanes" document by tomorrow, it would be very much appreciated. We'll bring the updated version of the document to the DMO briefing meeting on Friday for discussion.

And, of course, please let me know if you have any feedback on the other two documents (draft agenda, issues overview template) that were shared.

Looking forward to working with you both on this file,

Alisha

Alisha Tharani

Corporate Issues Management Analyst | Treasury Board Secretariat
416-327-3803 | Alisha.Tharani@ontario.ca

SCOPA_QA Overview_20180117_v3.pdf

QUESTIONS & ANSWERS OVERVIEW

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pension asset accounting
- Pre-Election Report
- Province's debt burden

Long-Form Member Questions

1. Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?

3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

Top Questions

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

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7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

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9. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs, which are organized on the basis of Auditor General recommendation number.*

Friendly Questions

1. To DM: Why is keeping the financing costs of the OFHP on the rate base, as opposed to the tax base appropriate? Why is OPG best placed to minimize the cost of the overall program?

2. To OPG: Can you explain what sort of external expertise OPG enlisted, and please explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

3. To IESO: How did the IESO come to the conclusion that it was acceptable to use GAAP instead of PSAS for rate regulated activities? Is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

DRAFT

RE_ Follow-up_ SCOPA prep kick-off discussion.pdf

From:	Cayley, Daniel (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Christie, Tim (ENERGY)
Subject:	RE: Follow-up: SCOPA prep kick-off discussion
Date:	January 19, 2018 9:24:59 AM
Attachments:	SCOPA_QA Overview_20180117_v3.docx

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Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 18, 2018 5:28 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: Follow-up: SCOPA prep kick-off discussion

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To: Cox, Hilary (ENERGY)
Cc: Lyon, Sam (ENERGY); Whytock, John (ENERGY); Nutter, George (ENERGY); Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Berg, Denna (ENERGY)
Subject: RE: Follow-up: SCOPA prep kick-off discussion

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SCOPA_QA Overview_20180117_v3_1.pdf

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DRAFT

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DRAFT

RE_ For ESP Review_ SCOPA Materials Drafts (1).pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Cayley, Daniel (ENERGY)
Subject:	RE: For ESP Review: SCOPA Materials Drafts
Date:	February 1, 2018 12:16:16 PM

Thank you

From: Cayley, Daniel (ENERGY)
Sent: February-01-18 12:00 PM
To: Schwab-Pflug, Emma (ENERGY)
Subject: RE: For ESP Review: SCOPA Materials Drafts

I wouldn't think so – it is meant to focus on the items that the AG took issue with in the annual report.

Daniel

From: Schwab-Pflug, Emma (ENERGY)
Sent: January 31, 2018 6:27 PM
To: Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Materials Drafts

Daniel, I assume you've worked on this – would you know if there is a need to *add* to the response table, for us re: Affordability Fund?

Thanks,
Emam

From: Edwards, Matthew (ENERGY)
Sent: January-25-18 12:03 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Syed, Usman (ENERGY); Krsikapa, Senka (ENERGY)
Subject: FW: For ESP Review: SCOPA Materials Drafts

Can you please review the Affordability Fund trust materials in these documents? The Ministry will be appearing at Public Accounts at the end of February to discuss OFHP.

Due to ADMO January 31st.

Thanks,

Matt

From: Hendy, Adam (ENERGY)
Sent: January 25, 2018 12:00 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Kitchen, Matthew (ENERGY) <Matthew.Kitchen@ontario.ca>
Cc: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; @ENERGY-COMM-Issues_and_MediaRelations <ENERGY-COMM-Issues_and_MediaRelations@msgov.gov.on.ca>

Subject: RE: For ESP Review: SCOPA Materials Drafts

Thanks Hilary,

Looping in Matt here. Matt if you have any questions about the below please don't hesitate to reach out.

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: January-25-18 11:55 AM
To: Hendy, Adam (ENERGY)
Subject: RE: For ESP Review: SCOPA Materials Drafts

Hi Adam –
Please also loop in CRED since the DM has asked Kaili to attend Public Accounts as well with regard to AG recommendation #9.

HC

From: Hendy, Adam (ENERGY)
Sent: January 24, 2018 3:09 PM
To: Thiru, Dhil (ENERGY); Cox, Hilary (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Whytock, John (ENERGY); Lyon, Sam (ENERGY); Perkins, Michael (ENERGY); Nucciarone, Michael (ENERGY)
Subject: For ESP Review: SCOPA Materials Drafts

Hi Dhil and Hilary,

Attached for your review are the following items that are due to TBS for SCOPA:

- **QA and KM Template –** A lot of this language is in your hands already with the OPG Tech Briefing QA that is due back tomorrow, hoping you can update/add with this messaging where indicated.
- **Response Table**
- **Friendly Q's –** We inserted everything we had for Qs 1 and 3, we will need ESP's help to get to the 20 minute mark for these. I believe Q2 is where we need it to be however.

We will leave it up to ESPD to decide if there is enough time to run the friendlies by OPG and IESO. We are comfortable with running them through next week, as long as we are able to provide ministry edits to TBS for their Monday deadline.

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RE_ For ESP Review_ SCOPA Materials Drafts .pdf

From:	Cayley, Daniel (ENERGY)
To:	Schwab-Pflug, Emma (ENERGY)
Subject:	RE: For ESP Review: SCOPA Materials Drafts
Date:	February 1, 2018 12:00:00 PM

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Please do not hesitate to call if you have any questions or concerns.

Thanks,
Adam

RE_ For ESP Review_ SCOPA Response table(1).pdf

From: Lightbody, Ava (ENERGY)
To: Cox, Hilary (ENERGY)
Cc: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: RE: For ESP Review: SCOPA Response table
Date: January 26, 2018 2:20:14 PM
Attachments: Response Table_Example_20180122-EPE-V2.docx

Hola,

We had some tidbits added to the other sections but I've just removed them as they won't be required re: review by others.

Thanks!
Ava

From: Cox, Hilary (ENERGY)
Sent: January-26-18 2:17 PM
To: Lightbody, Ava (ENERGY)
Cc: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: Re: For ESP Review: SCOPA Response table

We only added content on OFHP policy intent to the OFHP accounting piece, right? The rest is indeed being reviewed by others.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Lightbody, Ava (ENERGY)
Sent: Friday, January 26, 2018 2:13 PM
To: Cox, Hilary (ENERGY)
Cc: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Hilary,

Our additions to this SCOPA response table. Note that some of this content would be IESO or TBS domain, i.e. in the "IESO accounting" and "Legislated Accounting" sections.

Feel free to give me a ring if any concerns.

Ava

From: Cox, Hilary (ENERGY)
Sent: January 25, 2018 4:56 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Guys –

Steen asks that you beef up the language around OFHP policy intent (per Estimates and AG QAs) for attached table. There is something vaguely there, but it needs to be clearer, more like our messaging and generally enhanced. Tomorrow EOD seem possible?

HC

Response Table_Example_20180122-EPE-V2_1.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making~~, and that the accounting structure is still being finalized.~~. Refuse to speculate about AG's potential future audit opinion.	As part of Ontario's Fair Hydro Plan, bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to

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	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with ~~Public Sector Accounting Standards (PSAS).~~PSAS. ~~The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~ PSAS is silent on a key accounting issue

Commented [AL1]: Concept covered above

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		regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, the IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations. ~~The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.~~
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

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	not legislate accounting.	The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

DRAFT

RE_ For ESP Review_ SCOPA Response table.pdf

From: Lightbody, Ava (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: RE: For ESP Review: SCOPA Response table
Date: January 26, 2018 1:18:26 PM

Hello,

Not sure what this table is for or how it differs from the status table completed last week, but have added the language that I believe is what is requested. I erred on the side of too much, so this can be cut down.
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\Response table\Response Table_Example_20180122-EPE.docx

Ava

From: Cayley, Daniel (ENERGY)
Sent: January-25-18 4:57 PM
To: Lightbody, Ava (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Ava – see below request for tomorrow afternoon.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 25, 2018 4:56 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Guys –
Steen asks that you beef up the language around OFHP policy intent (per Estimates and AG QAs) for attached table. There is something vaguely there, but it needs to be clearer, more like our messaging and generally enhanced. Tomorrow EOD seem possible?

HC

RE_ MOF media inquiry - SCOPA & FHP .pdf

From:	Cox, Hilary (ENERGY)
To:	Demetriades, Natasha (ENERGY); Thiru, Dhil (ENERGY)
Cc:	Nucciarone, Michael (ENERGY)
Subject:	RE: MOF media inquiry - SCOPA & FHP
Date:	March 5, 2018 11:45:00 AM
Attachments:	Media Request FHP numbers.docx

Hi Natasha –
Attached are 2 possible options for how we respond to the Globe and Mail question. Both ADM approved. Copying in DMO as Steen defers to them on which approach we adopt to answering the question.

HC

From: Demetriades, Natasha (ENERGY)
Sent: March 2, 2018 11:42 AM
To: Thiru, Dhil (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: MOF media inquiry - SCOPA & FHP

Hi Dhil: MOF has received a media inquiry from the Globe and Mail (highlighted below).

They've checked in with the OFA and they recommend that ENERGY respond to this.

Is it possible to provide some answers to this?

The reporter has no hard deadline.

Let me know, thank you.

Natasha

--

Context:

As you may be aware, last year the Financial Accountability Office estimated that the FHP would cost Ontario $45 billion over 29 years, or a net cost of $21 billion once the resultant savings to electricity ratepayers are subtracted. The FAO also said that "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21.0 billion in interest."

In its response to the Auditor General of Ontario's report on the FHP, the

government asserted the following:

While total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the report of the Financial Accountability Office (FAO), cited by the report. Total borrowing estimates over the thirty year life of the program have been revised down substantially by the government since the FAO released its report in May 2017 and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

Question:

I request the detailed borrowing estimates cited by the government above, including the underlying math behind peak debt and interest charges and any assumptions made.

Media Request FHP numbers_2.pdf

Q. I request the detailed borrowing estimates cited by the government above [peak debt and accumulated interest], including the underlying math behind peak debt and interest charges and any assumptions made.

Version 1

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program and conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ontario Power Generation (OPG), in its role as Financial Services Manager, is responsible for developing financing plans and managing debt obligations to ensure the policy objectives of Ontario's Fair Hydro Plan are achieved. OPG is currently working to update borrowing and cost projections, which will reflect the results of the initial debt issuance in February 2018.

These updated estimates are expected shortly. We will provide the numbers as they become available.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Version 2

Cost estimates for the Global Adjustment (GA) refinancing program are projections that will continue to be revised over the thirty-year life of the program as conditions change, including variables such as interest rates, electricity demand, and electricity system costs.

Ministry analysis underpinning the 2017 Long-Term Energy Plan (2017 LTEP) forecasts peak debt at approximately $20 billion and a total interest cost of less than $19 billion. These updated estimates include estimated fees charged by Ontario Power Generation (OPG) in its role as Financial Services Manager, and assume a 5 per cent average interest rate over the life of the program.

Forecasted peak debt represents the maximum annual debt balance. Total interest cost is the sum of forecasted annual interest paid over the thirty-year life of the program, which is calculated based on the average debt balance in each year and a 5 per cent average interest rate.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

RE_ Next phase of SCOPA_QA_Friendly_Chapter 3.pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: Next phase of SCOPA_QA_Friendly_Chapter 3
Date:	February 1, 2018 4:35:24 PM
Attachments:	SCOPA_QA_Friendly_Chapter 3-EPE.docx

Hilary, here is our ICI friendly.

From: Cox, Hilary (ENERGY)
Sent: January-28-18 8:49 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Next phase of SCOPA_QA_Friendly_Chapter 3

Hi Tim and Daniel and SNAP -
After Energy' appearance at Public Accounts on Feb 28, we'll still have another 2.5 hours of appearance - this time on the AG's VFM and Cybersecurity of IESO.
While most of the AG's recommendations were directly focused on IESO, we're preparing for a relatively broad scope of questioning at Public Accounts and are, accordingly, preparing friendly questions.

Tim/Daniel - Please use the attached to prepare 20 mins of response for the DM on ICI.

SNAP - please use attached to prepare the DM for 20 mins of script on the OEB review.

Appreciate seeing first draft by Wednesday EOD.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Friday, January 26, 2018 2:46 PM
To: Cox, Hilary (ENERGY)
Subject: SCOPA_QA_Friendly_Chapter 3

Can we get ESP and SNAP working on the friendly questions that we discussed yesterday with the DM.

At some point I'll send out a similar request to IESO and OEB.

SCOPA_QA_Friendly_Chapter 3-EPE.pdf

Energy

Commented [HS(1]: Energy to prepare friendly questions. Need 20 mins of content per question for the DM

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what GA is.

GA is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to regulated and contracted generators to ensure they can recover their fixed costs, including nuclear, hydro, natural gas, and renewables. In addition, GA also recovers costs associated with running conservation programs in the province.

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time, including variable costs incurred by generators to produce electricity, such as fuel. If HOEP is insufficient to cover long term capital costs incurred by generators as included in their regulated or contracted rates, GA makes up the difference. Conversely, when market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, GA varies from month to month, responding to changes in the HOEP compared to contracted and regulated prices. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to

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service, contract payments take effect, or as a result of changes in Ontario electricity demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

All consumers pay GA, however there is variation in how different types of customers are charged. All non-ICI participants pay GA as a volumetric charge, either through the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) or as a separate line item on their bill. This means that they pay the same GA rate on every kilowatt-hour consumed.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. Participants work to forecast when system peak hours will occur, which depends on a number of factors that influence when Ontarians consume electricity, such as time of day, time of year, and the weather, and then work to reduce consumption during those hours using any number of strategies, such as changing the operating profiles of industrial equipment.

If a Class A customer is assessed, for example, to be responsible for one per cent of Ontario's peak demand for the five highest hours in a year, they will be charged for one per cent of total GA costs each month through the next year.

This allows participants to manage their GA costs by consuming less during peak hours. As a result, ICI participants pay for the electricity system costs that are recovered through the GA – costs which increase with higher system peak demand – in proportion to their contribution to those costs.

Benefits of ICI

ICI provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial. By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs, because they are contributing to the incurrence of electricity system costs associated with higher peak demand. Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs. The recovery mechanism under ICI

maintains this relationship between a consumer's electricity costs and their contribution to provincial peak demand.

An electricity system's long run costs – as opposed to short run costs, such as fuel – are largely a function of capital investments in the infrastructure required to meet maximum demand. Therefore it follows that the recovery of long term costs should be a function of consumption during peak demand periods. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers. Further, because ICI helps industrial consumers lower electricity prices by one-third on average, it helps them to remain competitive and focused on creating jobs for Ontarians across the province. Thanks in part to ICI, indicative industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, as reported by the U.S. Energy Information Administration.

It is also important to note that we have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. To this end, we have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

History of ICI and Expansions

Initially ICI was available to consumers with peak demand above five megawatts (MW). Effective July 2015, Class A consumer status was extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors, with NAICS codes beginning with 21, 31-22, 518, 1114, and 493120.

In January 2017, regulatory amendments took effect that further expanded the ICI program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the prior threshold of three megawatts. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. These consumers

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include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to:

- The peak electricity demand of a city roughly the size of Mississauga, OR
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area, OR
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016.

The Ontario electricity system is now well placed to continue to meet demand for electricity and remain focussed on taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in this objective. The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast.

Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

ICI is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs. Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

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Q. Ontario Energy Board review exercise

Response

- XXX

IESO

Q. IESO

Response

- XXX

OEB

Q. Role of the Market Surveillance Panel

Response

- XXX

Commented [HS(2]: SNAP to prepare friendly question

Commented [HS(3]: IESO to prepare friendly questions. Need 20 mins of content per question

Likely need 3 questions

Commented [HS(4]: OEB to prepare friendly questions. Need 20 mins of content per question

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RE_ Public Accounts Committee_ Hearings on Sect....pdf

From:	Bungaro-Yemec, Francesca (ENERGY) on behalf of Imbrogno, Serge (ENERGY)
To:	kkoch@ola.org
Cc:	ernie.hardeman@pc.ola.org; bonnie.lysyk@auditor.on.ca; Schlaepfer, Martin (ENERGY)
Subject:	RE: Public Accounts Committee: Hearings on Section 3.06, 2017 Annual Report
Date:	February 21, 2018 5:41:55 PM
Attachments:	20180221 DM Letter to Clerk of the Committee.pdf Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20_.pdf

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Good afternoon,

Please find the attached letter and summary status table.

Thank you,

Francesca, on behalf of Deputy Minister Imbrogno

20180221 DM Letter to Clerk of the Committee_1.pdf

Ministry of Energy

Office of the Deputy Minister
Hearst Block, 4th Floor
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6755

Ministère de l'Énergie

Bureau du sous-ministre
4e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél.: 416-327-6758
Téléc.: 416-327-6755

Ontario

February 21, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto ON M7A 1A2

Dear Mr. Koch:

I am writing regarding the review of Independent Electricity System Operator – Market Oversight and Cybersecurity (Section 3.06 of Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, March 7, 2018 from 12:30 p.m. to 3:00 p.m.:

Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Energy Supply Policy Division

Independent Electricity System Operator (IESO)
- Peter Gregg, President and Chief Executive Officer
- Leonard Kula, Chief Operating Officer, Vice President, Planning, Acquisition and Operations
- Glenn McDonald, Director, Market Assessment and Compliance Division
- Sorana Ionescu, Vice President, Information and Technology Services (Acting)

As per the January 29, 2018, memo sent to you from the Ontario Energy Board (OEB), the following individuals from the OEB will also participate:
- Rosemarie Leclair, Chair and Chief Executive Officer
- Glen Leslie, Chair, Market Surveillance Panel
- Martine Band, Associate General Counsel, Legal Services
- Mary Anne Aldred, Chief Operating Officer and General Counsel

In addition, please find enclosed a copy of the summary status table in response to Chapter 3 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Martin Schlaepfer, Director of Operations at 416-326-7688 or Martin.Schlaepfer@ontario.ca if you require further information.

Sincerely,

Serge Imbrogno
Deputy Minister

c: Ernie Hardeman, MPP, Chair of Committee
Bonnie Lysyk, Auditor General

Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2_6.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

RE_ RUSH - Auditor General 2017 Annual Report -...(1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject:	RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date:	February 28, 2018 11:02:00 AM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)-edits.docx

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-28-18 10:19 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Tim and Daniel -
As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP what implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_32.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million. According to the Ontario Financing Authority, this represents a spread of 23 basis points over Ontario long-term debt.

Commented [CT(1]: As reported by OFA in email of Feb 7.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

~~Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.~~]

Commented [CD(2]: Optional 101 content

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The~~se~~ smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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RE_ RUSH - Auditor General 2017 Annual Report -...(2).pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date: February 28, 2018 11:17:55 AM
Attachments: Auditor General 2017 Annual Report - SCOPA Chapt 2 ICI only.docx

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From: Cox, Hilary (ENERGY)
Sent: February-28-18 11:15 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi –
Can you strip out the ICI QA and prep it as a standalone?

HC

From: Christie, Tim (ENERGY)
Sent: February 28, 2018 11:02 AM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February-28-18 10:19 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Tim and Daniel -
As below, please add a QA on the changes to ICI when OFHP was introduced and add the basis point spread to the interest rate QA. As soon as possible please since it's another piece for this afternoon.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

Hi Hilary,

The Deputy has asked if a QA on ICI could be added that details the changes to the ICI program that occurred when the OFHP what implemented.
Also, regarding the interest rate question comparing the Ministry of Energy's Fair Allocation Amount (FAA) assumption against the 3.357% rate secured, can the basis point spread be added to the answer.

Thanks,
Mike

Auditor General 2017 Annual Report - SCOPA Ch_33.pdf

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

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As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. The smaller manufacturing and greenhouse consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

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RE_ RUSH - Auditor General 2017 Annual Report -....pdf

From: Cayley, Daniel (ENERGY)
To: Christie, Tim (ENERGY)
Subject: RE: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)
Date: February 28, 2018 10:55:28 AM
Attachments: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)-edits.docx

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Edits attached.

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 10:19 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: RUSH - Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

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Sent: Wednesday, February 28, 2018 10:12 AM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: Auditor General 2017 Annual Report - SCOPA Chapt 2_Update_Feb 26-EPE (002)

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Mike

Auditor General 2017 Annual Report - SCOPA Ch_34.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million. According to the Ontario Financing Authority, this represents a spread of 23 basis points over Ontario long-term debt.

Commented [CD(1]: Defer to OFA to confirm spread.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

[ICI is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.]

Commented [CD(2]: Optional 101 content

As part of Ontario's Fair Hydro Plan, ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. These consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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RE_ Rate Mitigation Implementation (1).pdf

From:	Syed, Usman (ENERGY)
To:	Edwards, Matthew (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject:	RE: Rate Mitigation Implementation
Date:	October 27, 2017 5:20:00 PM
Attachments:	2017-10-26 Consolidated - OFHP Matrix - Week of October 23 us.docx

Hi Matt – here is ther OFHP matrix.

From: Schwab-Pflug, Emma (ENERGY)
Sent: October 27, 2017 1:35 PM
To: Syed, Usman (ENERGY)
Cc: Di Tullio, Yvonne (ENERGY); Qureshi, Musab (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Usman, please see tracked updates attached. Due to ADMO midday. Thanks, Emma

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From: Di Tullio, Yvonne (ENERGY)
Sent: October-27-17 11:51 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: RE: Rate Mitigation Implementation

Here you are Emma. I went a bit more detailed than the action items list; for your consideration. thanks

---

From: Schwab-Pflug, Emma (ENERGY)
Sent: October-27-17 11:25 AM
To: Di Tullio, Yvonne (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation

Apologies, Yvonne, I've actioned this very later. Could you kindly update the two attached documents for as soon as you're able this afternoon? I think this should be quite straightforward, pulling from the news release.

Thank you,
Emma

From: Edwards, Matthew (ENERGY)
Sent: October-26-17 4:18 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Can you update the Affordability Fund items for this?

Due noon tomorrow.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation

Hi All –
Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

2017-10-26 Consolidated - OFHP Matrix - Week _3.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
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• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
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• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	~~**October 2017:**~~ ~~• Soft launch of microsite and 1-800 number Oct 12~~ ~~• Oct. 243 formal announcement in Hamilton involving the Minister~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017 • Oct. 12: Soft launch of microsite and 1-800 number. • Oct. 24 formal announcement in Hamilton involving the Minister of Energy. • As of Oct. 23, 66 applications from 6 LDCs processed through the AFT program. • On Oct. 24, the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions.	continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has~~is~~ amended~~ing~~ the TPA with the Affordability Fund Trust to ~~request~~ require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report

Item	Key Deliverables / Considerations	Timing / Next Steps
	• AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
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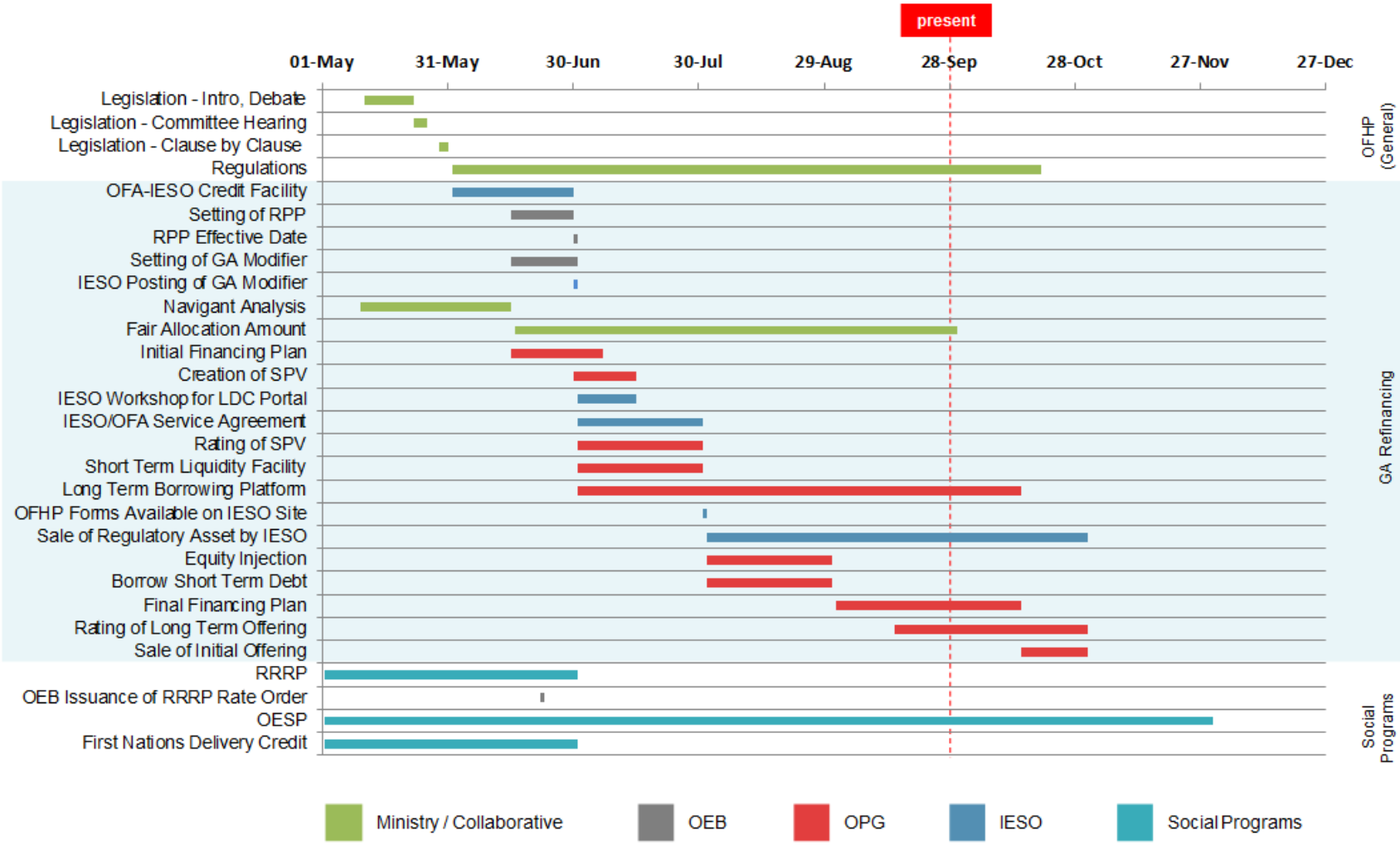
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation (2).pdf

From:	Sermat-Harding, Kaili (ENERGY)
To:	Edwards, Matthew (ENERGY)
Subject:	RE: Rate Mitigation Implementation
Date:	October 27, 2017 5:27:42 PM
Attachments:	2017-10-26 Consolidated - OFHP Matrix - Week of October 23 us ksh.docx

With edits. Thx.

From: Edwards, Matthew (ENERGY)
Sent: October-27-17 5:23 PM
To: Sermat-Harding, Kaili (ENERGY)
Subject: FW: Rate Mitigation Implementation

Kaili,

CEEB has provided the attached updates to the OFHP Rate Mitigation matrix.

OK to send to ESP?

Thanks,

Matt

From: Syed, Usman (ENERGY)
Sent: October 27, 2017 5:21 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Cc: Schwab-Pflug, Emma (ENERGY) <Emma.Schwab-Pflug@ontario.ca>; Kolodziej, Monika (ENERGY) <Monika.Kolodziej@ontario.ca>
Subject: RE: Rate Mitigation Implementation

Hi Matt – here is ther OFHP matrix.

From: Schwab-Pflug, Emma (ENERGY)
Sent: October 27, 2017 1:35 PM
To: Syed, Usman (ENERGY)
Cc: Di Tullio, Yvonne (ENERGY); Qureshi, Musab (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Usman, please see tracked updates attached. Due to ADMO midday. Thanks, Emma

---

From: Di Tullio, Yvonne (ENERGY)
Sent: October-27-17 11:51 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: RE: Rate Mitigation Implementation

Here you are Emma. I went a bit more detailed than the action items list; for your consideration. thanks

From: Schwab-Pflug, Emma (ENERGY)
Sent: October-27-17 11:25 AM
To: Di Tullio, Yvonne (ENERGY)
Cc: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation

Apologies, Yvonne, I've actioned this very later. Could you kindly update the two attached documents for as soon as you're able this afternoon? I think this should be quite straightforward, pulling from the news release.

Thank you,
Emma

From: Edwards, Matthew (ENERGY)
Sent: October-26-17 4:18 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Kolodziej, Monika (ENERGY)
Subject: FW: Rate Mitigation Implementation

Can you update the Affordability Fund items for this?

Due noon tomorrow.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation

Hi All –
Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

2017-10-26 Consolidated - OFHP Matrix - Week _4.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
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2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications.	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

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	OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
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5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items ~~• On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity~~ ~~• Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for review and approval by the Board of Trustees (have engaged Accenture to assist)~~	~~**October 2017:**~~ ~~• Soft launch of microsite and 1-800 number Oct 12~~ ~~• Oct. 243 formal announcement in Hamilton involving the Minister~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and

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9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
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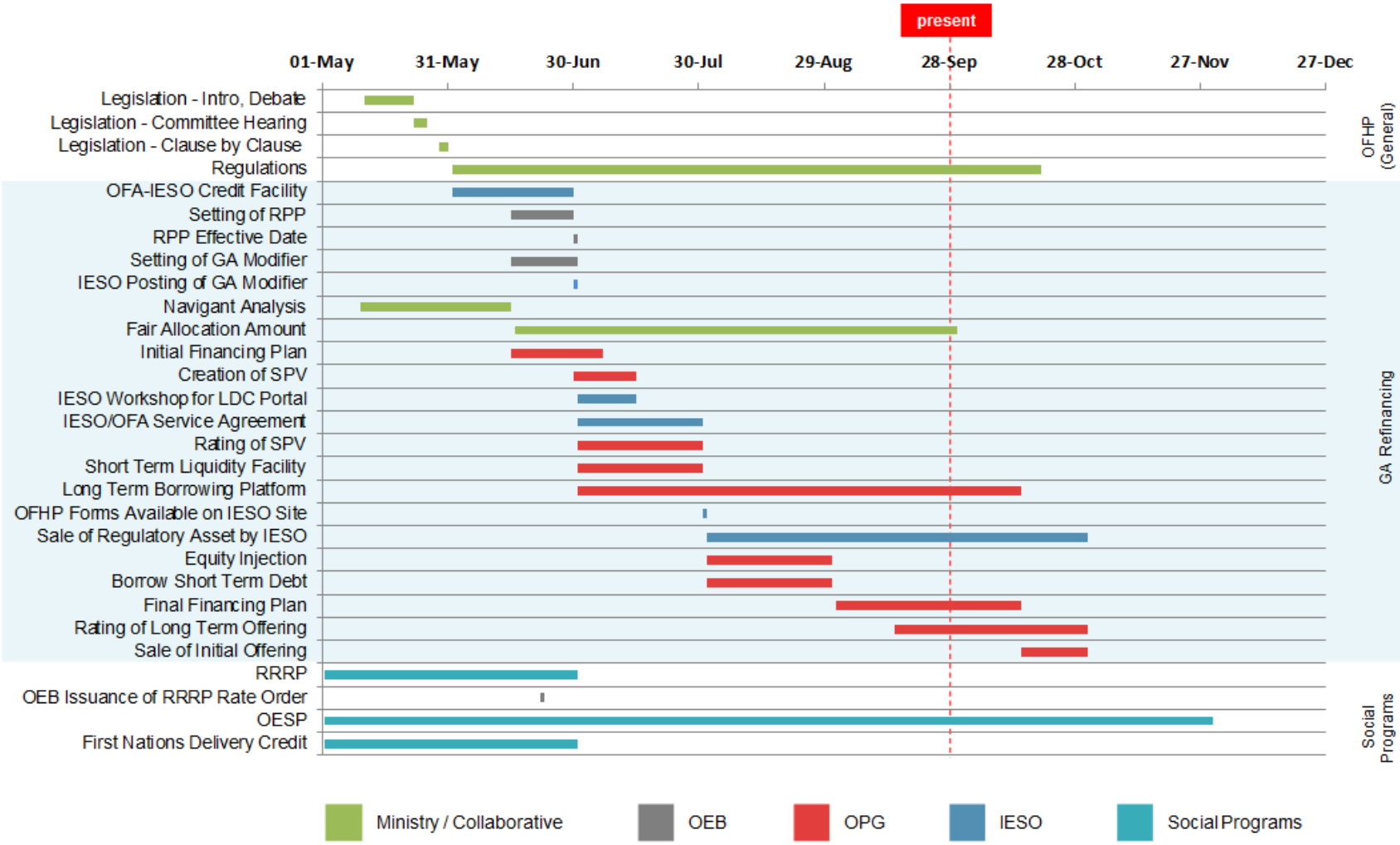
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation (3).pdf

From:	Edwards, Matthew (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	RE: Rate Mitigation Implementation
Date:	October 27, 2017 5:36:00 PM
Attachments:	2017-10-26 Consolidated - OFHP Matrix - Week of October 23 us ksh.docx

See attached.

Matt

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Ridd, Carl (ENERGY) <Carl.Ridd@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
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HC

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Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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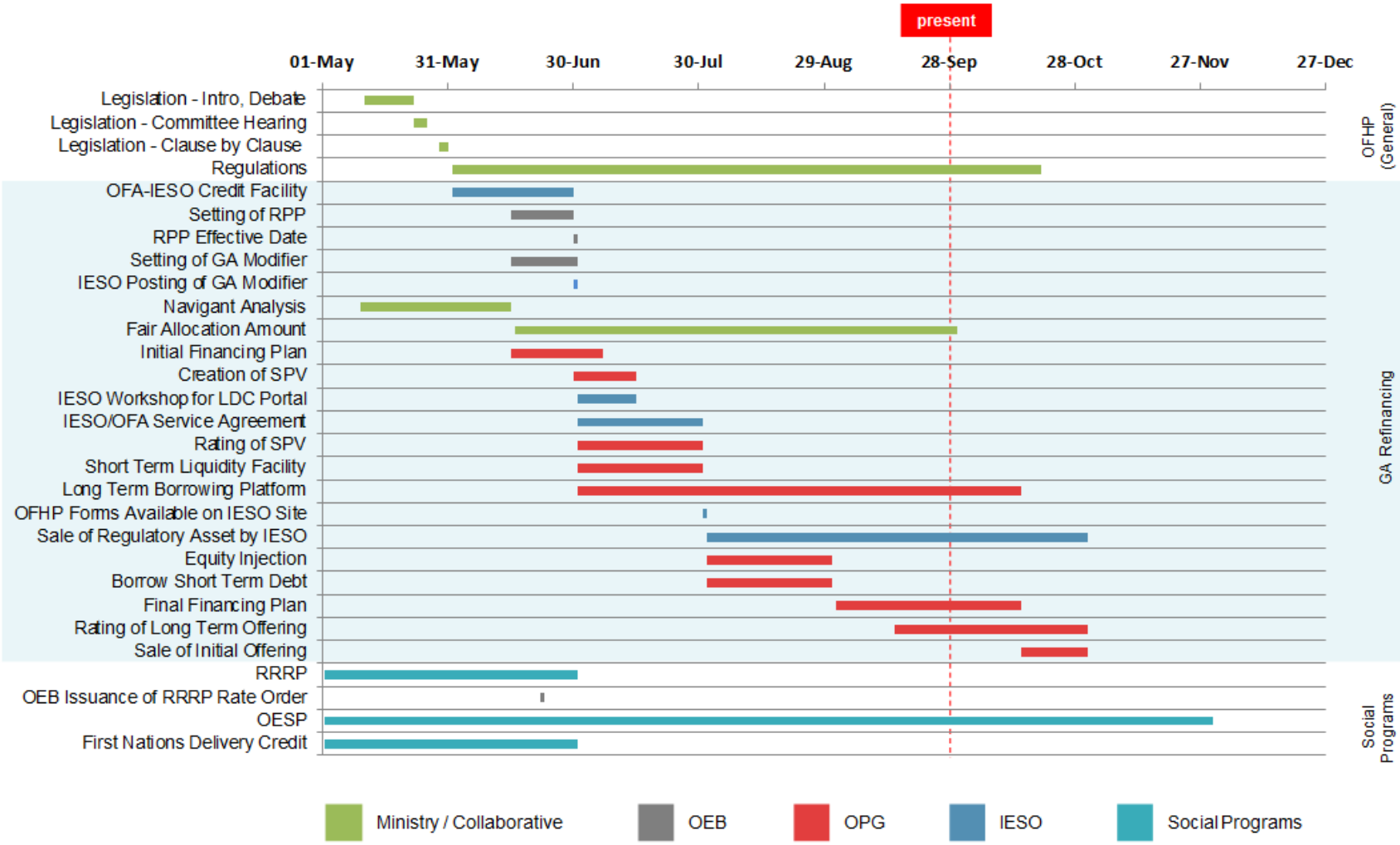
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation (4).pdf

From:	Ridd, Carl (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	RE: Rate Mitigation Implementation
Date:	October 31, 2017 9:03:01 AM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of October 9_SNAP tracked.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean.docx

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Hi Hilary,

If it's not too late – SNAP edits attached, clean and tracked.

Thanks,

Carl

From: Cox, Hilary (ENERGY)
Sent: October 26, 2017 4:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Ridd, Carl (ENERGY); Edwards, Matthew (ENERGY); Katona, Keley (MOF); Montgomery, Kaitlin (MOF); Thouin, Alena (ENERGY)
Subject: FW: Rate Mitigation Implementation

Hi All –
Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _18.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

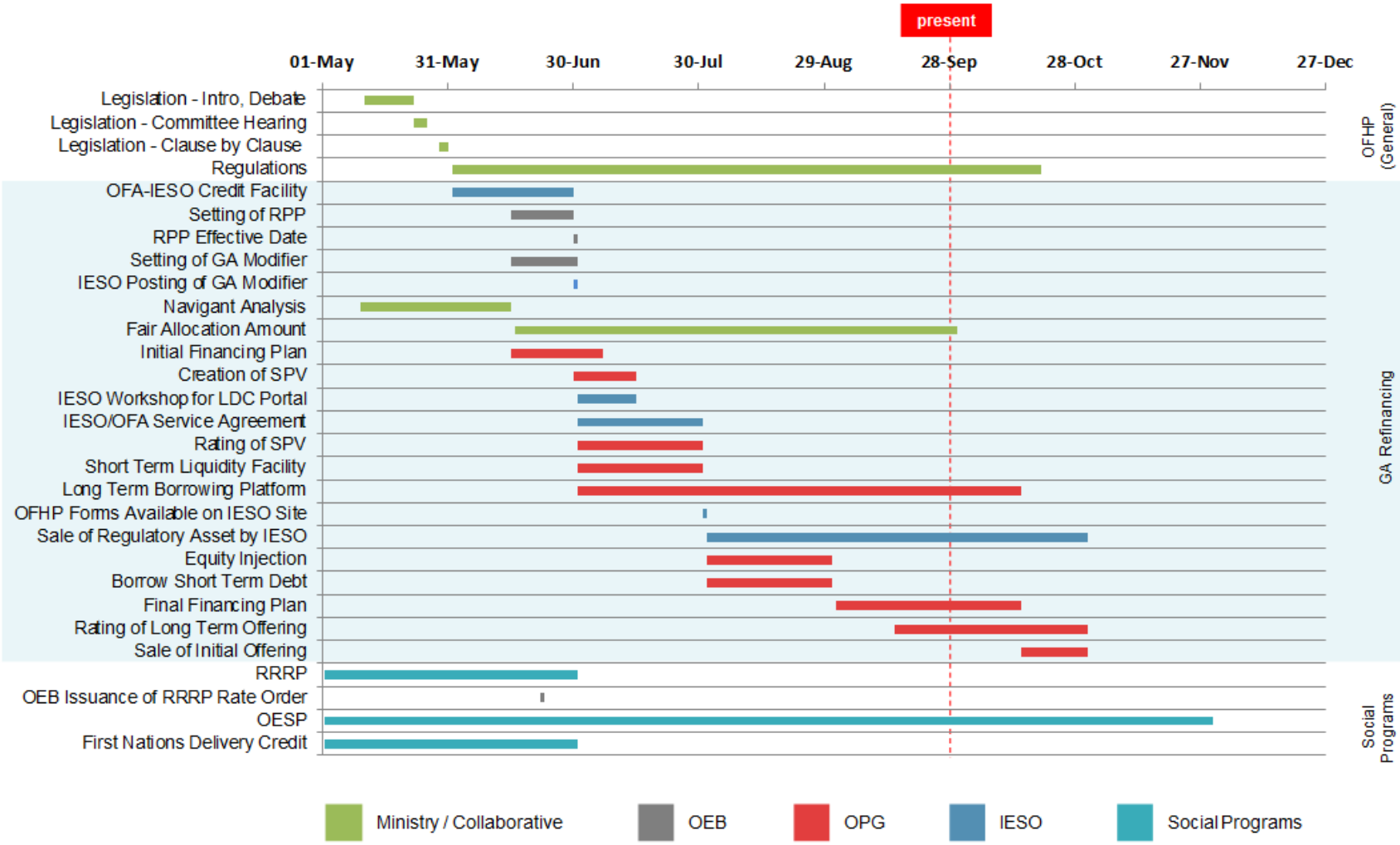
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	~~• Will work on updated cost projections for PRRT submission~~ • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	~~• Will work on updated cost projection for PRRT~~ • ~~Hydro One to provide update on program enrollment week of October 2~~Receiving regular updates from H1 on enrollment.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017-09-27 Consolidated - OFHP Matrix - Week _19.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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	application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
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5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for review and approval by the Board of Trustees (have engaged Accenture to assist)	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications

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	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	• Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
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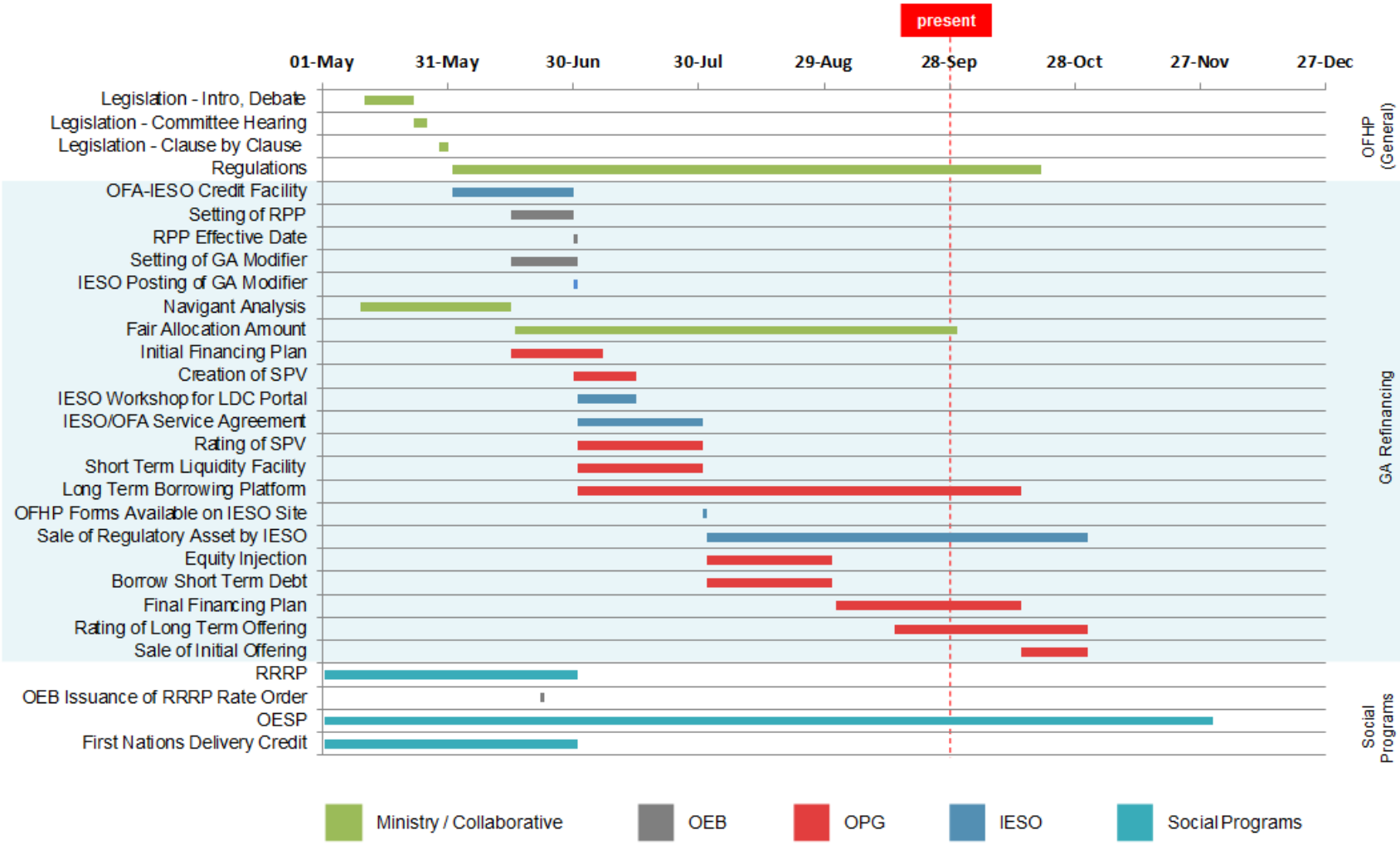
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation .pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY); Lightbody, Ava (ENERGY)
Subject:	RE: Rate Mitigation Implementation
Date:	October 27, 2017 3:35:42 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 30 - ENE.docx 2017-10-27 OFHP Matrix - Week of Oct 30 - ENE.docx

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Hilary, edits attached.

From: Cox, Hilary (ENERGY)
Sent: October-26-17 4:08 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Ridd, Carl (ENERGY); Edwards, Matthew (ENERGY); Katona, Keley (MOF); Montgomery, Kaitlin (MOF); Thouin, Alena (ENERGY)
Subject: FW: Rate Mitigation Implementation

Hi All –

Please use attached action items from October 12 Rate Mitigation Implementation meeting to update OFHP Matrix and Business Issues list (both attached).

ESPD will consolidate. Please return for consolidation and approval by noon tomorrow.

HC

2017 Outstanding Business Issues - Week of O_10.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services, which will- account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.~~made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)~~	• ~~Draft Base Fee framework~~ • ~~Draft Variable Fee framework~~ • Amendments to Ontario Regulation 206/17 (General)	• ENE, OPG, OEB and OFA have been working to develop proposed regulatory amendments which would enable OPG to establish and charge fees in its role as FSM, provide a methodology for the calculation of those fees, and define the role of the OEB in reviewing and approving those fees.~~determine role of OEB in determining fees OPG charges~~ **Timing**: Proposed regulatory amendments~~ion~~ expected to be reviewed at October ~~16 /~~ 30 LRC ~~(TBD)~~

OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero	• Amendments to ~~Ontario~~ O. ~~Regulation~~ Reg. 206/17 (~~i.e., G~~general) ~~regulation). Note: No longer proposing to amend GA regulation~~	• ENE, ~~-~~OPG, IESO and OFA have been working to develop proposed regulatory amendments which would enable the FSM to recover fees and interest amounts from IESO ~~to be recovered~~ during the i~~I~~nflationary c~~C~~ap period, and would enable IESO to record such amounts in the variance account.~~.~~ **Timing**: Proposed regulatory amendments expected to be reviewed at October ~~16 /~~ 30 LRC ~~(TBD)~~
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg **Timing:** ~~ENE and OPG are considering tracking to~~These amendments are expected to be brought forward at the ~~the~~ November 20 LRC date
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** Amendments to O. Reg. 429/04 could track to an LRC date in December

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2017-10-27 OFHP Matrix - Week of Oct 30 - ENE.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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Item	Key Deliverables / Considerations	Timing / Next Steps
	206/17 regarding the recovery of interest costs and Financial Services Manager (FSM) fees ('carrying costs') during the initial four-year period. ▪ ~~Leg Counsel Draft being circulated~~ o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA have finalized proposed regulatory amendments to O. Reg. 206/17 (i.e., general regulation) which would enable carrying costs ~~fees and interest amounts~~ to be recovered during the Inflationary Cap period. Note: Related amendments to ~~No longer proposing to amend~~ GA regulation are no longer being proposed. ▪ ~~Leg Counsel Draft being circulated~~ o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17. o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
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• ENERGY, IGS, LSB, Blakes,	Recent Action Items	**October 2017:**

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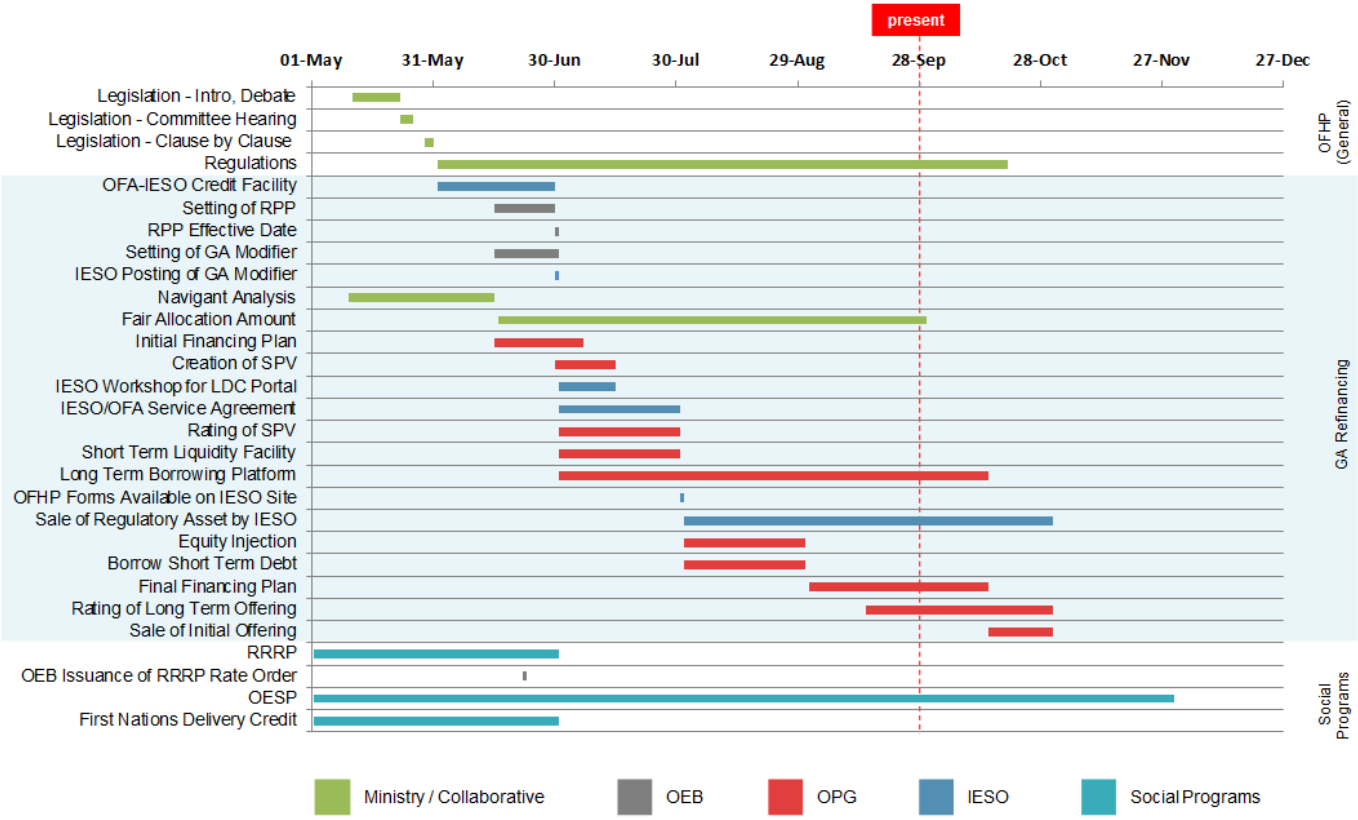
Commented [AL1]: For comms to update

Item	Key Deliverables / Considerations	Timing / Next Steps

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation Group(1).pdf

From:	Chander, Sunita (ENERGY)
To:	Feather, Adam (ENERGY); Wong, Elaine (ENERGY); Smith, Brett (ENERGY)
Cc:	Smith, Mike (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 2:58:21 PM

I've sent you some edits

Don't worry about this EW an BS (haha…B…S…)

Thanks

Sunita Chander
Director, Distribution and Agency Policy Branch
Strategic, Network and Agency Policy Division
Ministry of Energy

77 Grenville St., 6th Floor
Toronto ON M7A 2C1
Tel: 416-325-6594
Email: sunita.chander@ontario.ca

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 2:56 PM
To: Wong, Elaine (ENERGY); Smith, Brett (ENERGY)
Cc: Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

Hello All:

Anything on this?

A.

From: Feather, Adam (ENERGY)
Sent: October 10, 2017 6:20 PM
To: Smith, Mike (ENERGY); Wong, Elaine (ENERGY)
Cc: Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject: Rate Mitigation Implementation Group

Evening All:

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Need back by 3pm tomorrow.

Thanks!

A.

RE_ Rate Mitigation Implementation Group(2).pdf

From:	Syed, Usman (ENERGY)
To:	Edwards, Matthew (ENERGY)
Cc:	Schwab-Pflug, Emma (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:00:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida us.docx

Here you go…

From: Edwards, Matthew (ENERGY)
Sent: October 11, 2017 8:46 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Group

Is there anything to update in the OFHP Matrix? We would need this back for Kaili around 3pm.

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –
Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _20.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

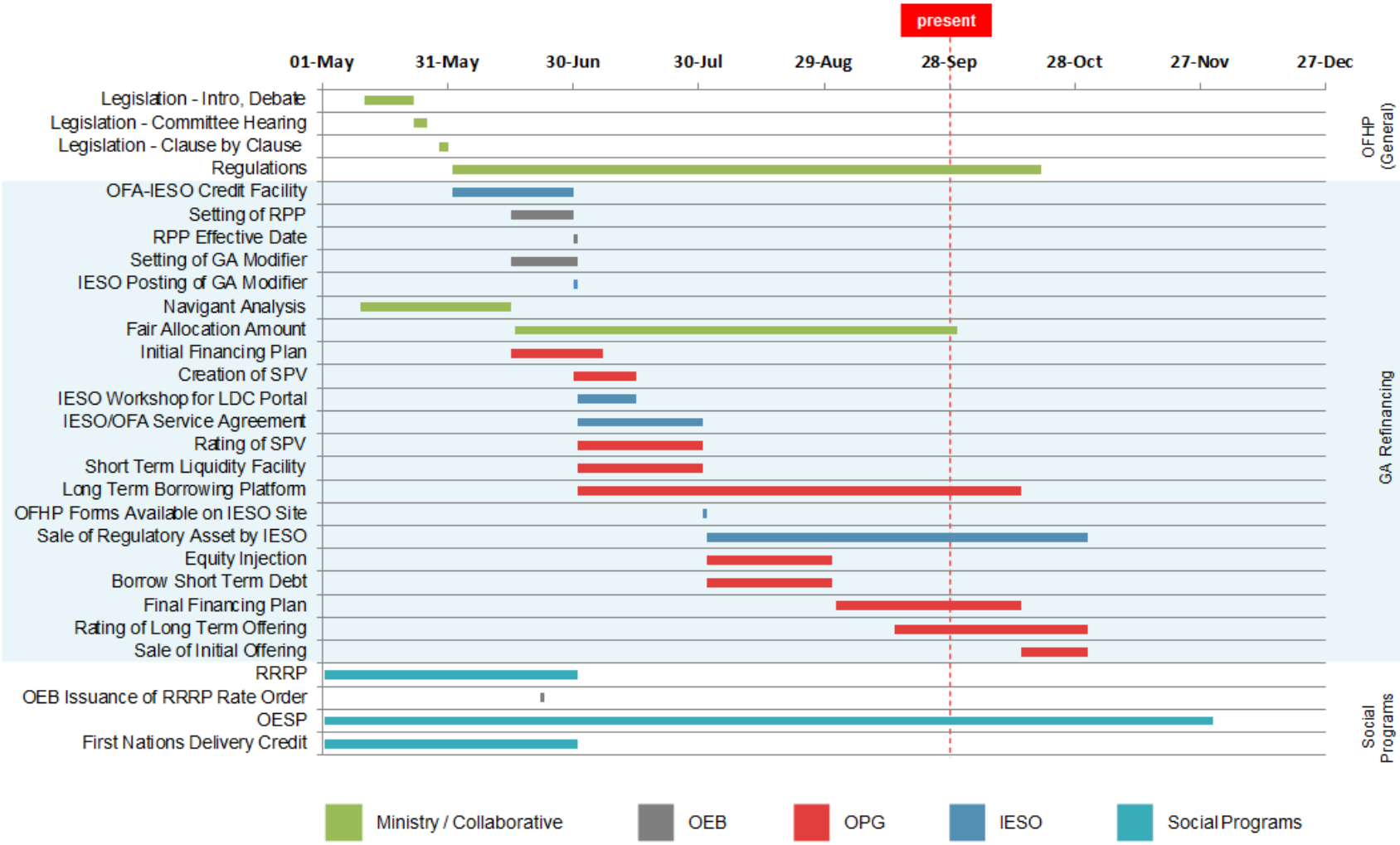
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister ~~Target for program launch~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	• ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation Group(3).pdf

From:	Wong, Elaine (ENERGY)
To:	Chander, Sunita (ENERGY); Feather, Adam (ENERGY); Smith, Brett (ENERGY)
Cc:	Smith, Mike (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:01:39 PM

Ok, thanks.

From: Chander, Sunita (ENERGY)
Sent: October 11, 2017 2:58 PM
To: Feather, Adam (ENERGY); Wong, Elaine (ENERGY); Smith, Brett (ENERGY)
Cc: Smith, Mike (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

I've sent you some edits

Don't worry about this EW an BS (haha…B…S…)

Thanks

Sunita Chander
Director, Distribution and Agency Policy Branch
Strategic, Network and Agency Policy Division
Ministry of Energy

77 Grenville St., 6th Floor
Toronto ON M7A 2C1
Tel: 416-325-6594
Email: sunita.chander@ontario.ca

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 2:56 PM
To: Wong, Elaine (ENERGY); Smith, Brett (ENERGY)
Cc: Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

Hello All:

Anything on this?

A.

From: Feather, Adam (ENERGY)
Sent: October 10, 2017 6:20 PM
To: Smith, Mike (ENERGY); Wong, Elaine (ENERGY)
Cc: Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject: Rate Mitigation Implementation Group

Evening All:

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Need back by 3pm tomorrow.

Thanks!

A.

RE_ Rate Mitigation Implementation Group(4).pdf

From:	Feather, Adam (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:22:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

Minor edits.

From: Cox, Hilary (ENERGY)
Sent: October 11, 2017 2:47 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

Hi All –
Apologies, but is there any chance I can get these earlier? Like, any time now?

HC

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

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HC

2017-09-27 Consolidated - OFHP Matrix - Week _21.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
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2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
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6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
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Item	Key Deliverables / Considerations	Timing / Next Steps
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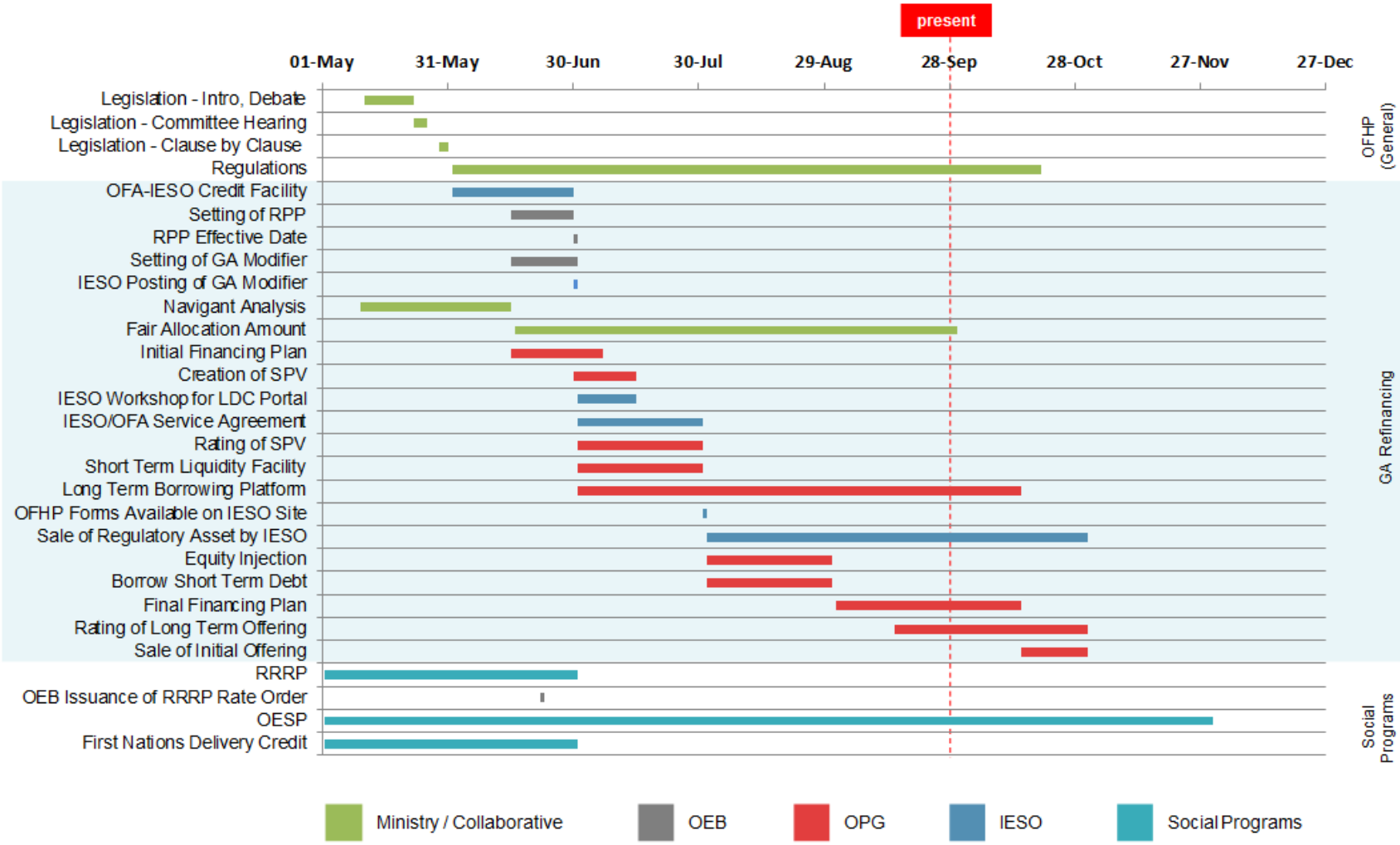
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation Group(5).pdf

From:	Feather, Adam (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:24:32 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

Minor edits.

From: Cox, Hilary (ENERGY)
Sent: October 11, 2017 2:47 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
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To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

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2017-09-27 Consolidated - OFHP Matrix - Week _22.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

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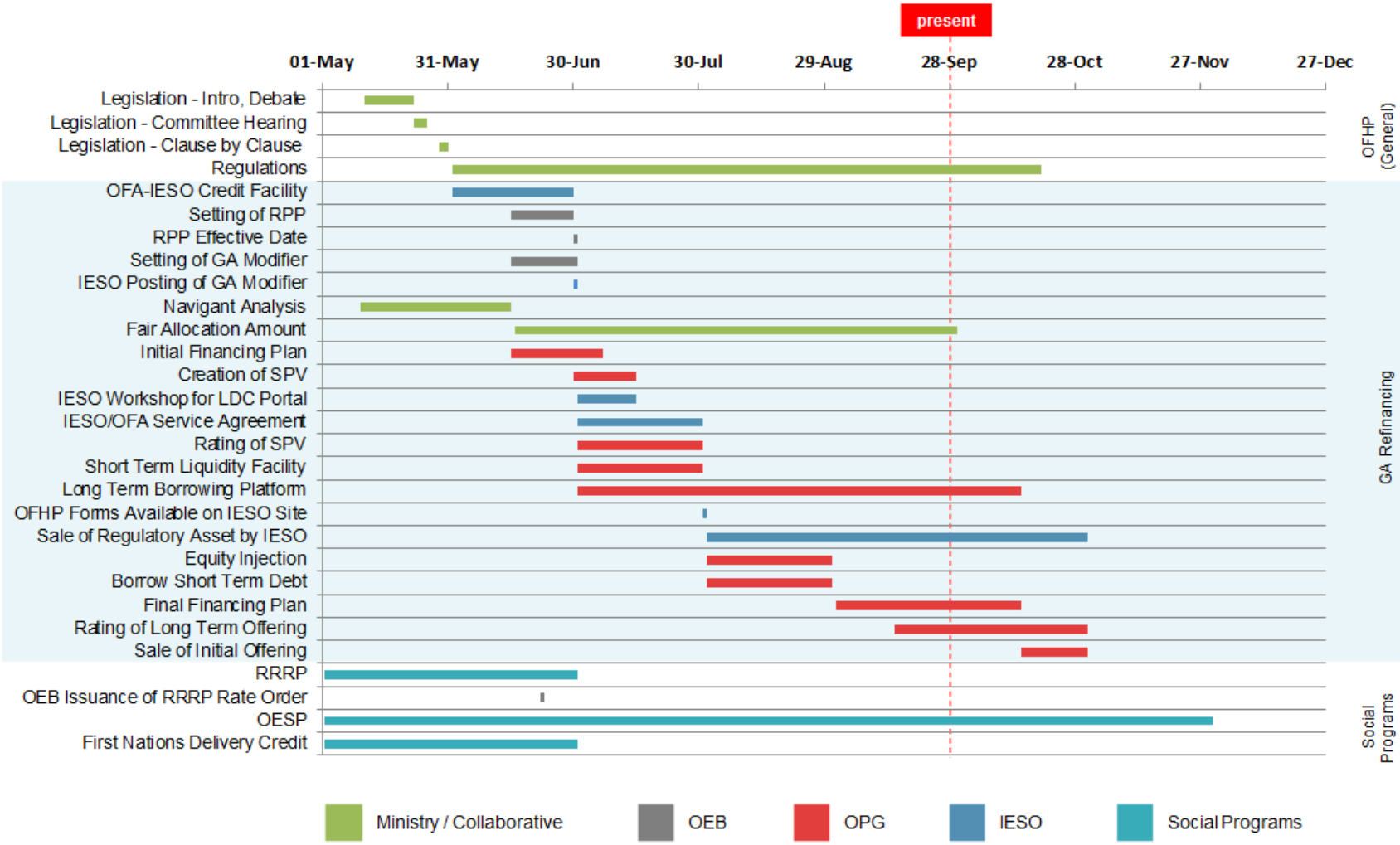
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation Group(6).pdf

From:	Sermat-Harding, Kaili (ENERGY)
To:	Edwards, Matthew (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:25:12 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida us ksh.docx

I made some more changes. Thx.

From: Edwards, Matthew (ENERGY)
Sent: October-11-17 3:01 PM
To: Sermat-Harding, Kaili (ENERGY)
Subject: Fwd: Rate Mitigation Implementation Group

Kaili,

Are you OK with the changes to the OFHP matrix?

Thanks.

Matt Edwards

From: "Syed, Usman (ENERGY)" <Usman.Syed@ontario.ca>
Sent: Oct 11, 2017 3:00 PM
To: "Edwards, Matthew (ENERGY)" <Matthew.Edwards@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group
Cc: "Schwab-Pflug, Emma (ENERGY)" <Emma.Schwab-Pflug@ontario.ca>

Here you go…

From: Edwards, Matthew (ENERGY)
Sent: October 11, 2017 8:46 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Group

Is there anything to update in the OFHP Matrix? We would need this back for Kaili around 3pm.

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

Hi All –
Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _23.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa ~~Carleton UW~~ / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative ~~offering back office~~ support, including ~~and helping~~ coordinating ~~e~~ stakeholder engagement and developing program principles and details ~~on program design~~ for review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister ~~Target for program launch~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending ~~proposing to amend~~ the TPA

Item	Key Deliverables / Considerations	Timing / Next Steps
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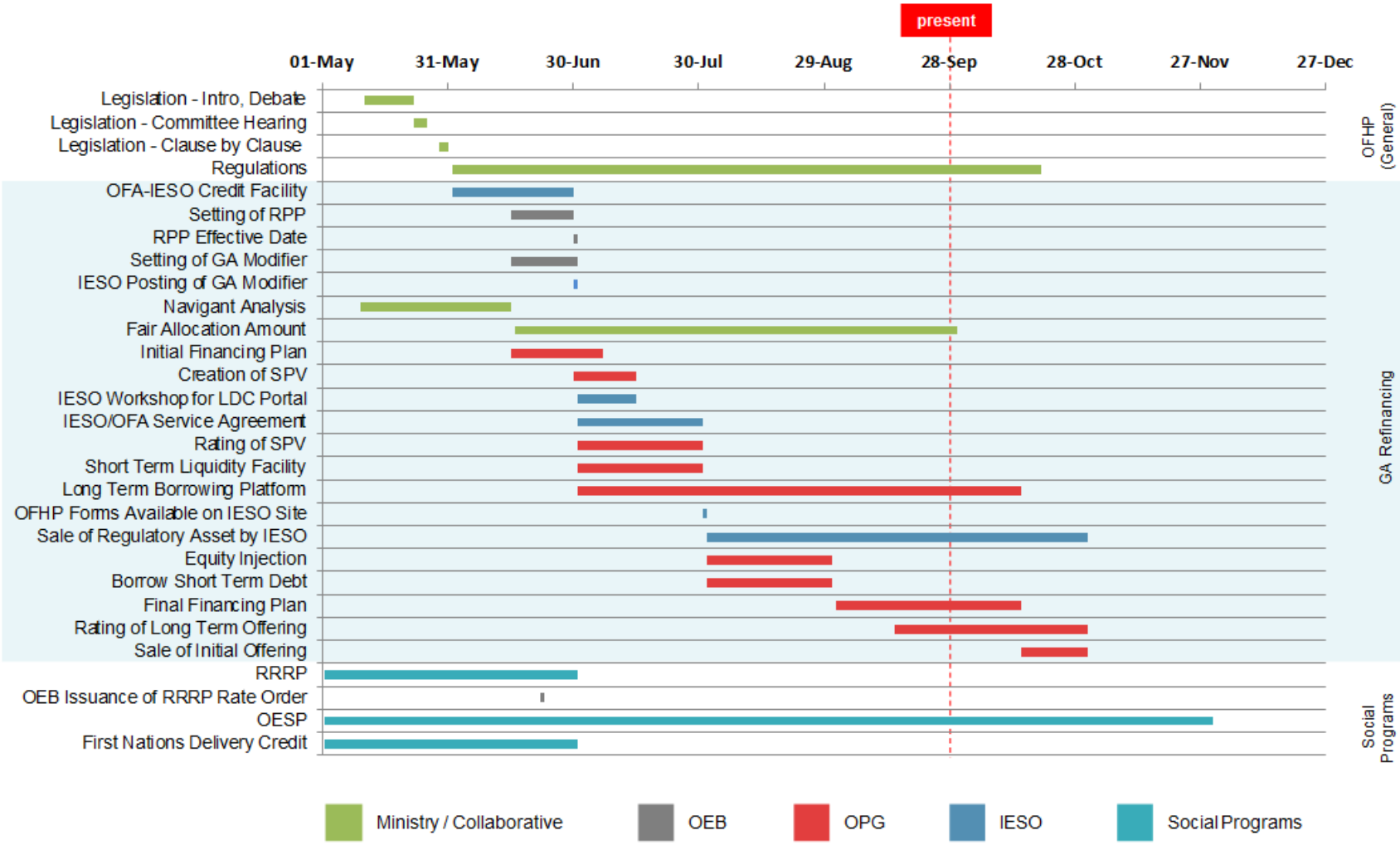
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation Group(7).pdf

From:	Edwards, Matthew (ENERGY)
To:	Feather, Adam (ENERGY); Cox, Hilary (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:26:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx

Edits attached.

From: Feather, Adam (ENERGY)
Sent: October 11, 2017 3:24 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Minor edits.

From: Cox, Hilary (ENERGY)
Sent: October 11, 2017 2:47 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject: RE: Rate Mitigation Implementation Group

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Apologies, but is there any chance I can get these earlier? Like, any time now?

HC

From: Cox, Hilary (ENERGY)
Sent: October 10, 2017 6:15 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: FW: Rate Mitigation Implementation Group

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Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _24.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

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1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

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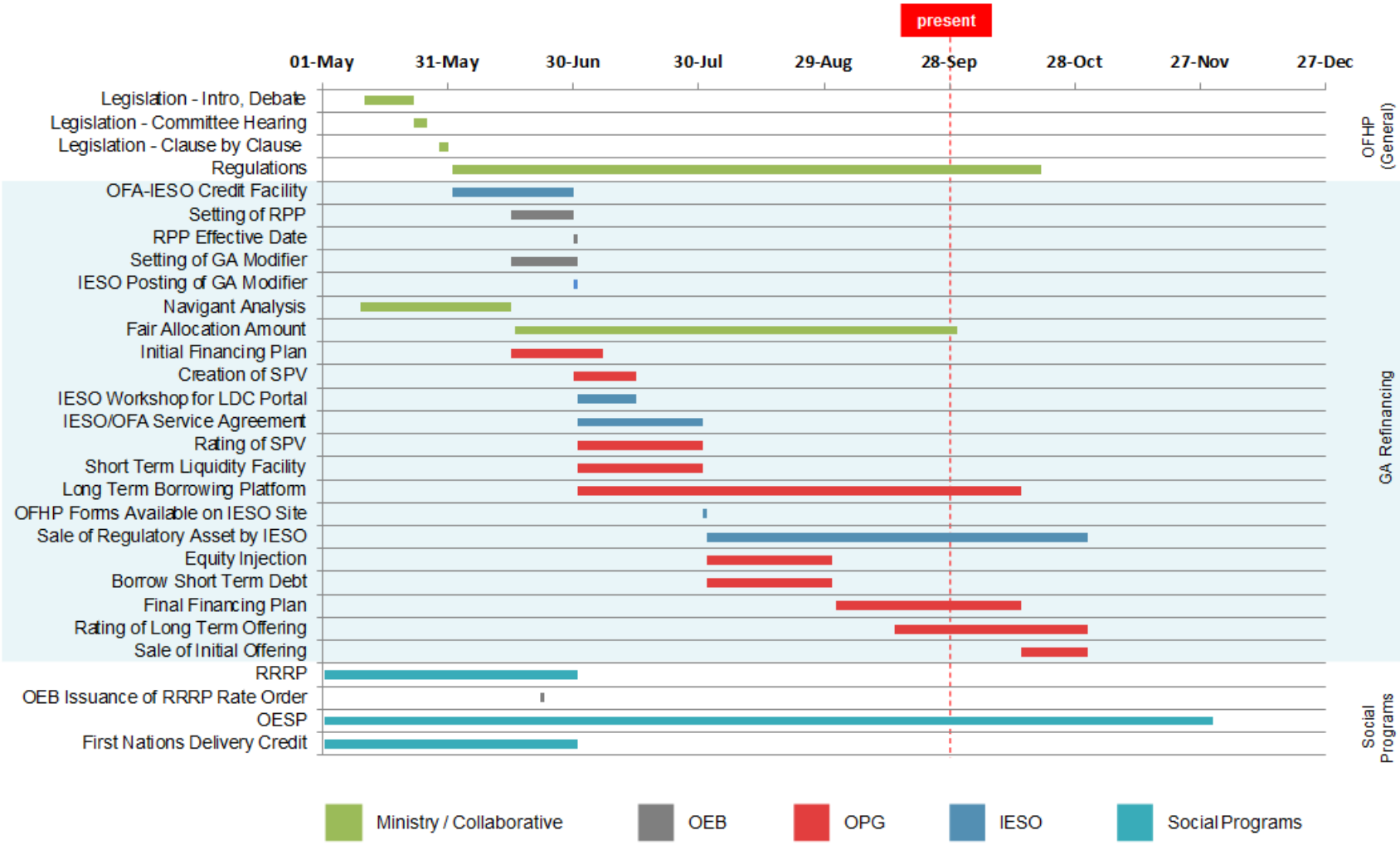
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

RE_ Rate Mitigation Implementation Group(8).pdf

From:	Cox, Hilary (ENERGY)
To:	Edwards, Matthew (ENERGY); Feather, Adam (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 3:27:05 PM

Thx

From: Edwards, Matthew (ENERGY)
Sent: October 11, 2017 3:27 PM
To: Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Group

Edits attached.

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Subject: RE: Rate Mitigation Implementation Group

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To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
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Subject: FW: Rate Mitigation Implementation Group

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HC

RE_ Rate Mitigation Implementation Group(9).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	O"Riordan, Eamon (ENERGY); Lightbody, Ava (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 4:50:16 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9 - Consolidated -ESP-SNAP-CRED.docx Action Items_ Sept 28_v2.docx

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Hilary, consolidated edits attached.

From: Cox, Hilary (ENERGY)
Sent: October-10-17 6:15 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Montgomery, Kaitlin (MOF); Katona, Keley (MOF); Thouin, Alena (ENERGY)
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Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Hoping to have this in hand for tomorrow at 4 pm.

HC

2017 Outstanding Business Issues - Week of S_19.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable~~performance~~ fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft ~~Performance~~ Variable Fee framework • Amendments to Ontario Regulation 206/17~~Regulation~~	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments~~ion~~ which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period	• Amendments to Ontario Regulation 206/17~~429/04~~ • ~~Amendments to~~	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered ~~via Global Adjustment (GA)~~during the Inflationary

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	for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.	~~OFHPA Regulations~~	Cap period.. **Timing**: Proposed regulatory amendmentsd~~ion~~ expected to be reviewed at October 16 LRC.

2017-09-27 Consolidated - OFHP Matrix - Week _25.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Funding source for carrying costs still to be determined. o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG ~~have~~ exchanged modelling data to support FAA and RA amounts in Minister's letter ~~▪ Letter is pending Minister's approval~~ o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize ~~develop~~ proposed amendments to O. Reg. 206/17 ~~regulation~~ which would determine role of OEB in determining fees OPG charges ▪ Final Leg Counsel Draft to be circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation)	~~• Late September – Minister's Fair Allocation Amount letter~~ ~~• September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet~~ ~~• September 29 – OPG Board Meeting~~ • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

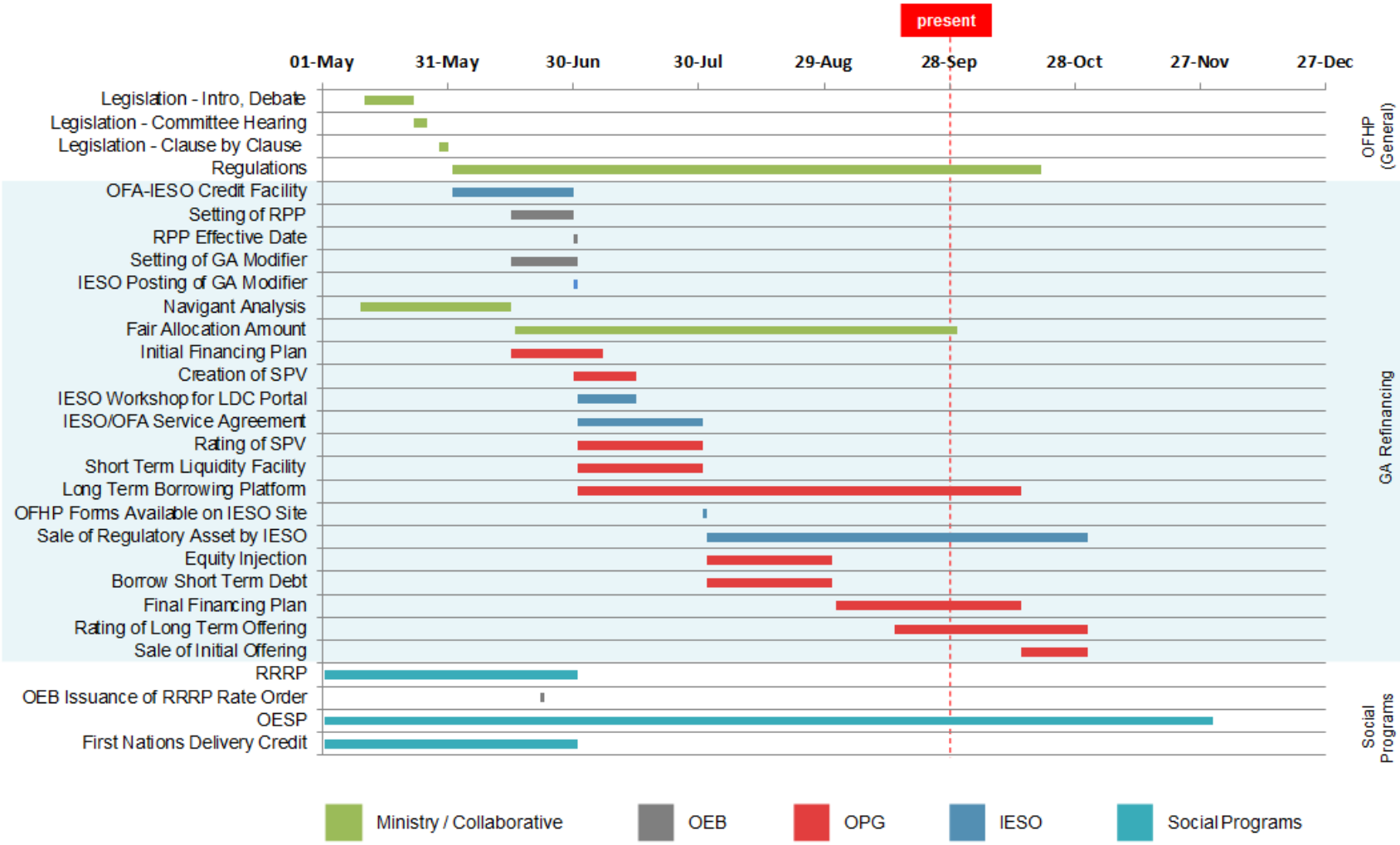
Item	Key Deliverables / Considerations	Timing / Next Steps
	▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments to O. Reg. 206/17 which would enable fees and interest amounts to be recovered during the Inflationary Cap period. ~~Recovered via Global GA~~ ~~▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA~~ ▪ Final Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre	~~• Week of August 7 – follow-up with CRA on proposed wet signature solution~~ • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December ~~late October / early November~~ to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa ~~Carleton UW~~ / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative ~~offering back office~~ support, including ~~and helping~~	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister ~~Target for program launch~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund

Item	Key Deliverables / Considerations	Timing / Next Steps
	coordinate~~e~~ing stakeholder engagement and developing program principles and details ~~on program design~~ for review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees ~~continue to~~ worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • ~~Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund~~ • Hydro One convened meetings with a number of LDCs in late September to review program design details. • Most recent Board meeting took place on October 5, 2017.	• ENERGY is amending the ~~proposing to amend~~ TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Action Items_ Sept 28_v2_3.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing
   - General Update (OPG / IESO)
     - OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
     - Fees and interest payments during the moratorium period regulatory amendments~~ions are underdevelopment~~ have been shared for final review. OPG advise that these are required when going back to rating agencies. Regulatory amendments~~ions~~ are tracking to LRC on October 16.
     - As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc).~~-~~ To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

   - Business Item (OPG/IGS)
     - Items are tracking towards completition in Fall.

   - Provincial Protection and Assurances Agreement (OFA/OPG)
     - Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

   - Fees, Interest Payments and FAA Letter (ENERGY)
     - Fees and interest payment ~~regulations~~ regulatory amendments are being finalized~~under development~~ and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts have~~will~~ also been circulated to TBS/OPCD

~~2) Estimates~~
   - ~~Ministry prepping for questions related to OFHP~~
   - ~~IESO and OPG representative to attend to answer specifc questions~~

~~3)~~2) Other OFHP Initiatives
   - RRRP, OESP and FN (SNAP)
   - Affordability Fund (CRED)

RE_ Rate Mitigation Implementation Group.pdf

From:	Feather, Adam (ENERGY)
To:	Wong, Elaine (ENERGY); Smith, Brett (ENERGY)
Cc:	Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject:	RE: Rate Mitigation Implementation Group
Date:	October 11, 2017 2:54:00 PM
Attachments:	Action Items_ Sept 28_v2.docx 2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hello All:

Anything on this?

A.

From: Feather, Adam (ENERGY)
Sent: October 10, 2017 6:20 PM
To: Smith, Mike (ENERGY); Wong, Elaine (ENERGY)
Cc: Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject: Rate Mitigation Implementation Group

Evening All:

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Need back by 3pm tomorrow.

Thanks!

A.

Action Items_ Sept 28_v2_4.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
        - Fees and interest payments during the moratorium period regulations are underdevelopment. OPG advise that these are required when going back to rating agencies. Regulations are tracking to LRC on October 16
        - As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc). To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

    - Business Item (OPG/IGS)
        - Items are tracking towards completition in Fall.

    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

    - Fees, Interest Payments and FAA Letter (ENERGY)
        - Fees and interest payment regulations are under development and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts will also be circulated to TBS/OPCD

2) Estimates
    - Ministry prepping for questions related to OFHP
    - IESO and OPG representative to attend to answer specifc questions

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

2017-09-27 Consolidated - OFHP Matrix - Week _26.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

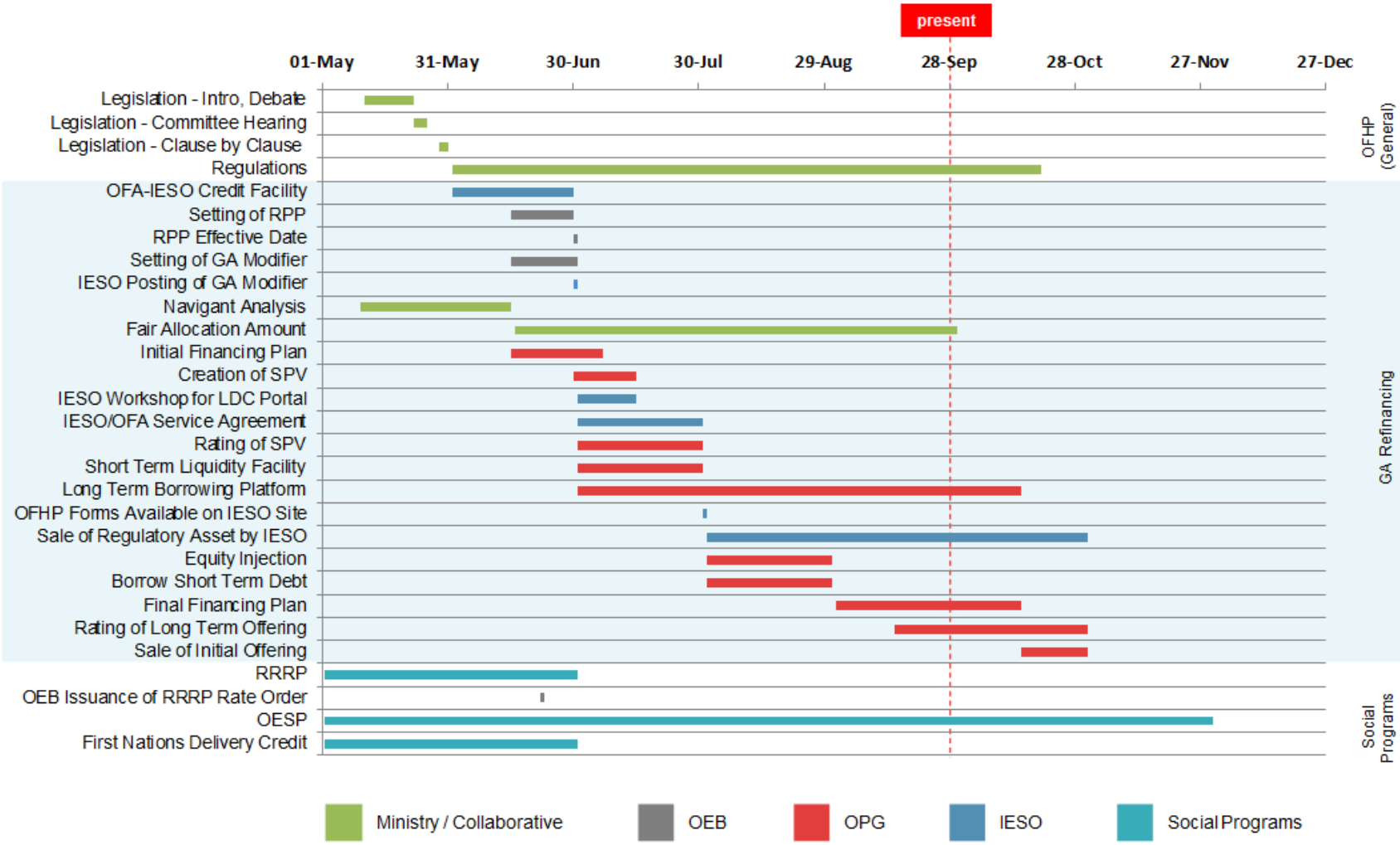
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017 Outstanding Business Issues - Week of S_20.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

RE_ Rate Mitigation Implementation Materials.pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nalasco, Adrian (ENERGY); Christie, Tim (ENERGY)
Cc:	Cox, Hilary (ENERGY)
Subject:	RE: Rate Mitigation Implementation Materials
Date:	September 13, 2017 10:14:00 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx
Importance:	High

Hi Folks,

Attached are the materials that were sent up for tomorrow morning's 8am meeting. These don't appear to have been updated to reflect developments since the last meeting.

Please take a look at these and update them asap, as I need to send these out this evening to the broader group.

Also, the Deputy is in Winnipeg tomorrow, so Tim you will have to Chair the meeting.

Feel free to give me a call if you have any questions.

Thanks,
Martin
(416) 873-7166

From: Schlaepfer, Martin (ENERGY)
Sent: September 13, 2017 7:36 PM
To: Nalasco, Adrian (ENERGY) <Adrian.Nalasco@ontario.ca>; Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Re: Rate Mitigation Implementation Materials

Hi Folks,

Just wondering about the status of materials for tomorrow morning's meeting?

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: Wednesday, September 13, 2017 6:36 PM
To: Cox, Hilary (ENERGY)
Subject: Rate Mitigation Implementation Materials

Hi Hilary,

Just following up on the status of the materials for tomorrow morning's meeting (i.e., Agenda, Matrix and Business Issues chart). I would like to show them to the Deputy soon.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
E: martin.schlaepfer@ontario.ca

2017-09-08 Consolidated - OFHP Matrix - Week _18.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re:	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

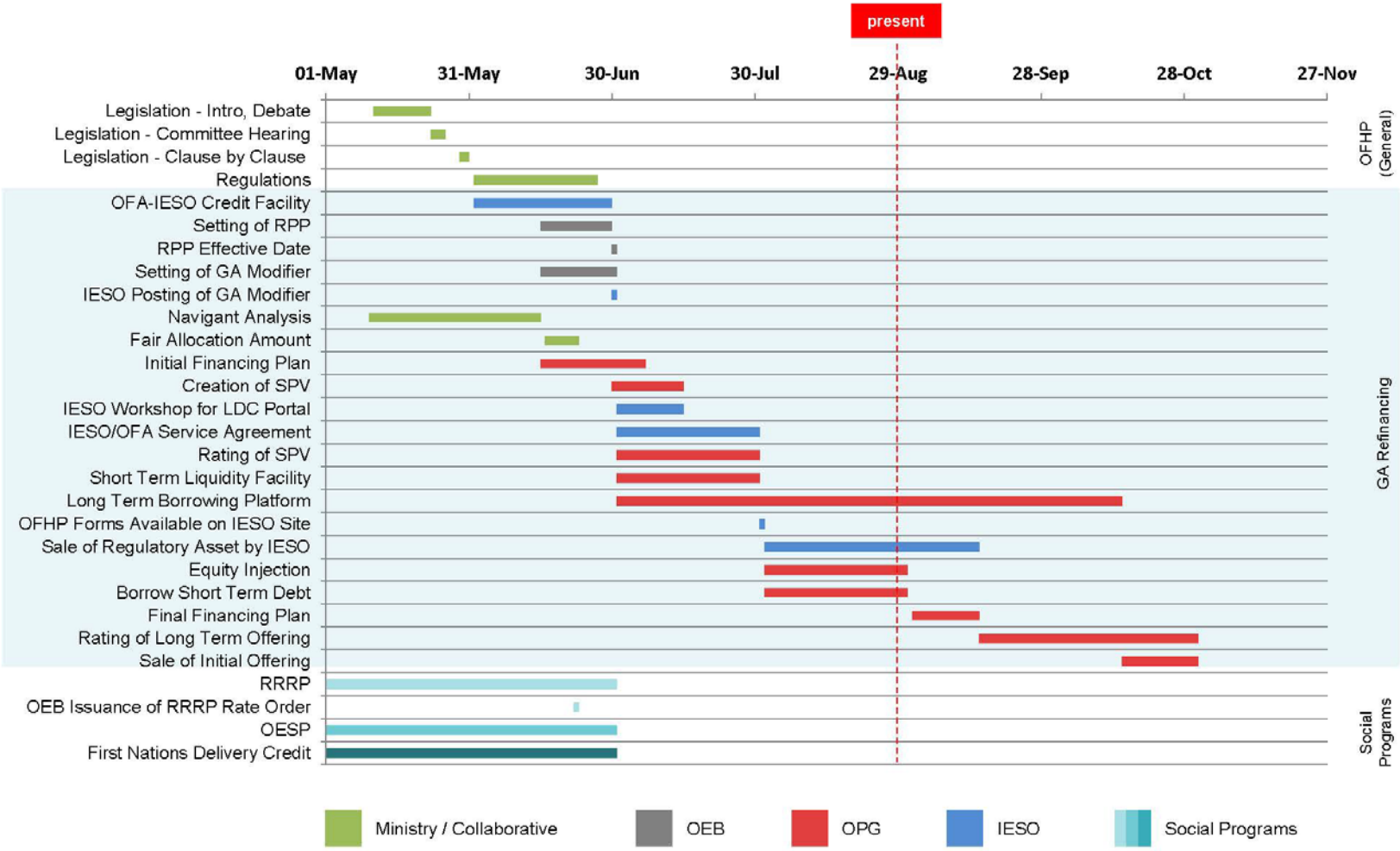
Item	Key Deliverables / Considerations	Timing / Next Steps
	PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_21.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Agenda_Weekly Rate Mitig Implmentation Group__8.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

RE_ Rate Mitigation Implementation Meeting - No....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Nelms, Scott (MOF); ""jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com)"; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)"; "Kim Marshall (Kim.Marshall@ieso.ca)"; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); "CROZZOLI Carlo -CBUSDEV&STRT"; Mayman, Gadi (OFA); "LEE John -TREASURY"; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc:	Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); "jordan.penic@ieso.ca"; "catriona.king@opg.com"; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF); HAHN PARKER Janet -TREASURY
Subject:	RE: Rate Mitigation Implementation Meeting - November 1, 2017
Date:	November 1, 2017 7:59:53 PM
Attachments:	Action Items_ Nov 1_v2.docx

Hi everyone,

Attached are the action items from today's meeting.

Thanks,
Martin

From: Schlaepfer, Martin (ENERGY)
Sent: October 31, 2017 3:52 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; ''jeffrey.lyash@opg.com' (jeffrey.lyash@opg.com)' <jeffrey.lyash@opg.com>; 'HARTWICK Ken -FINANCE (ken.hartwick@opg.com)' <ken.hartwick@opg.com>; 'Kim Marshall (Kim.Marshall@ieso.ca)' <Kim.Marshall@ieso.ca>; Thompson, Scott (MOF) <Scott.Thompson@ontario.ca>; Angus, Helen (TBS) <Helen.Angus@ontario.ca>; Davidson, Steven (CAB) <Steven.Davidson@ontario.ca>; 'CROZZOLI Carlo -CBUSDEV&STRT' <carlo.crozzoli@opg.com>; Mayman, Gadi (OFA) <Gadi.Mayman@ofina.on.ca>; 'LEE John -TREASURY' <john.s.lee@opg.com>; Hughes, Karen (TBS) <Karen.Hughes@ontario.ca>; Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>; Michael Boll <Michael.Boll@ieso.ca>
Cc: Imbrogno, Serge (ENERGY) <Serge.Imbrogno@ontario.ca>; Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>; Baker, Carys (ENERGY) <Carys.Baker@ontario.ca>; MacIntyre, Kyle (TBS) <Kyle.MacIntyre@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>; Foster, Robert (CAB) <Robert.Foster@ontario.ca>; 'jordan.penic@ieso.ca' <jordan.penic@ieso.ca>; 'Turnevicius, Lorraine' <lorraine.turnevicius@ieso.ca>; 'catriona.king@opg.com' <catriona.king@opg.com>; Bungaro-Yemec, Francesca (ENERGY) <Francesca.Bungaro-Yemec@ontario.ca>; Feather, Adam (ENERGY) <SOM.Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Laughton, Patrick (TBS) <Patrick.Laughton@ontario.ca>; David Barrett <david.barrett@ieso.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; HAHN PARKER Janet -TREASURY <j.hahnparker@opg.com>
Subject: Rate Mitigation Implementation Meeting - November 1, 2017

Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

Action Items_ Nov 1_v2_2.pdf

Action Items
November 1, 2017

<u>Agenda</u>

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
        - Rating agencies (i.e., DBRS) would like to interview IESO as part of the ratings process
        - Energy to prepare a letter to OPG to clarify that although the FAA Letter includes negative amounts, OPG can still incur charges (e.g., interest). Alternatively, this matter could be address through regulation
        - IESO meeting with OPG and dealers tomorrow to finalize outstanding issues (e.g., agreement, security)
        - OPG Board meeting on Novermeber 15 to approve critical business items
        - By the end of November IESO has to post its quarterly financial statements up to the end of September, which will include a regulatory asset of approximately $800 million
        - OFA has intercept letter for ENERGY and IESO to sign for enhanced Line of Credit
    - Provincial Protection and Assurances Agreement (OFA / OPG)
        - OFA working with OPG, MOF, ENERGY, Blakes and Tories to finalize agreement by the end of the week
    - Commercial Agreement (OPG/ IESO)
        - Work ongoing between OPG and IESO

    - OPG's Financing Plan (OPG)
        - OPG to share draft with Ministry as soon as possible. OPG expects to have draft document by the end of next week
        - OPG expects to go to market by end of November – to include an offering memorandum, which goes to identified investors. OPG to prepare a process "road map" that outlines the diffent steps of going to market
        - Ministry to determine whether a NR or statement would need to be issued about a quiet period while OPG goes to market
        - Potential Technical Media briefing on OPG financing plan in early December – OPG to work on outline of deck
    - Regulatory Amendments (ENERGY)
        - To enable IESO to recove from the GA its carrying costs associated with the Letter of Credit
        - To the General regulation to address methodology for recovery in the event of default (i.e., acceleration) and potentially negative FAA amounts

        - Energy to prepare a Minister letter to OPG outlining the policy intent of proposed amendments and indicate that the ministry's plan to obtain approval of the ammendents at LRC on November 20 or Decemeber 11

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - Reg tracking to LRC in December for OESP
    - Affordability Fund (CRED)
        - Next Trustees meeting is November 2nd.

RE_ Rate Mitigation Implementation Meeting Mate...(1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Ho, Larissa (ENERGY); Katona, Keley (MOF)
Cc:	DeSouza, Avril (ENERGY)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 15, 2017 3:35:34 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

Here are my edits to the matrix. Nothing to add to the business issues list.

From: Cox, Hilary (ENERGY)
Sent: September-15-17 3:15 PM
To: Christie, Tim (ENERGY); Ho, Larissa (ENERGY); Montgomery, Kaitlin (MOF)
Cc: DeSouza, Avril (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hi All,

Quick reminder that these products should be updated by EOD according to action items from yesterday's meeting. The action items sent around by Martin are attached as well for reference.

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: September 13, 2017 2:53 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Cc: Lightbody, Ava (ENERGY) <Ava.Lightbody@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
I'll be off tomorrow and Friday so am hoping that after tomorrow's rate mitigation implementation group, you can all update the attached products with action items and return to Ava by EOD Friday. She'll send up to Martin in DMO.

HC

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017-09-08 Consolidated - OFHP Matrix - Week _19.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. ~~o (OPG, IESO and Energy to work through approach)~~	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid~~ Late September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • October 14 – LRC for interest/fees collection • Late November 2017 – OPG Financing (TBD)

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Item	Key Deliverables / Considerations	Timing / Next Steps
	~~o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required ~~• ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ o	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items	• Week of August 7 – follow-up

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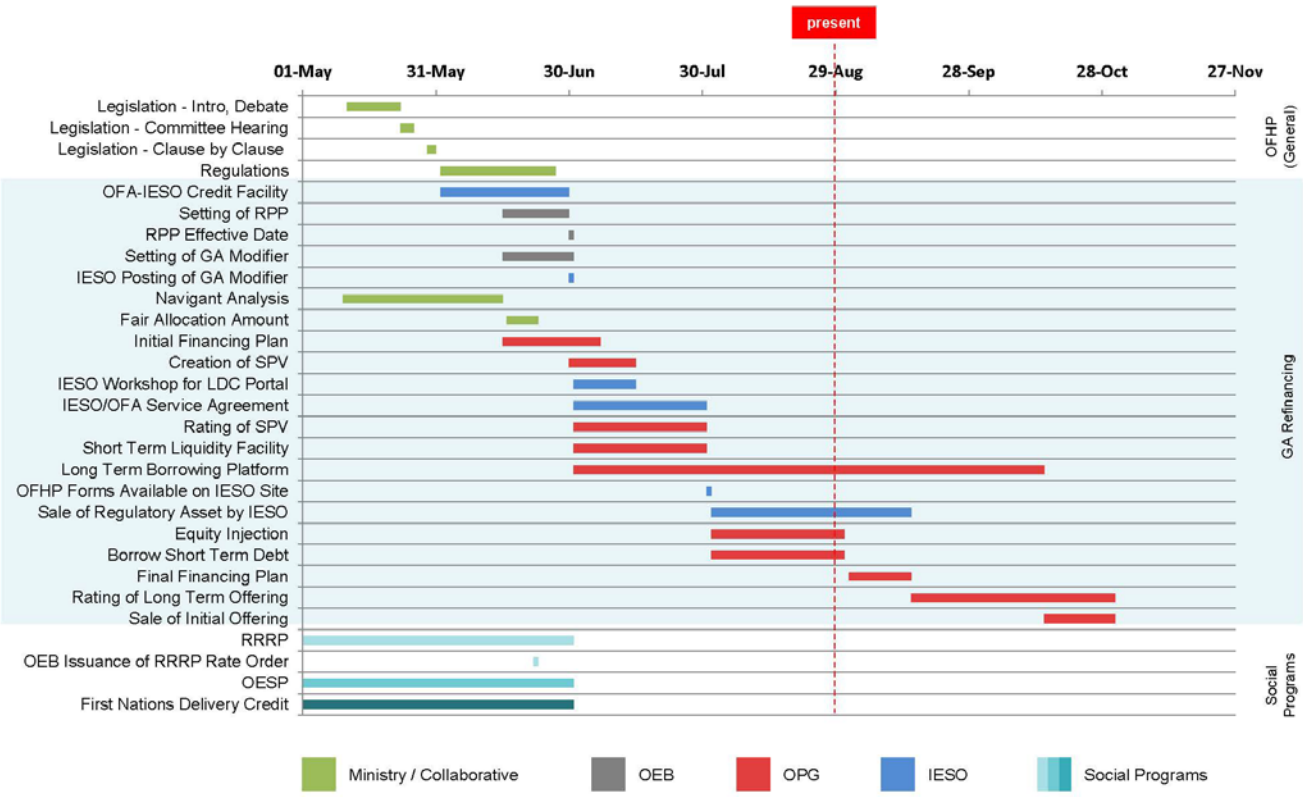
Item	Key Deliverables / Considerations	Timing / Next Steps
	• July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:**

Item	Key Deliverables / Considerations	Timing / Next Steps
	Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	• ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items	• Quarterly Report Backs re ICI

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(2).pdf

From:	Katona, Keley (MOF)
To:	Christie, Tim (ENERGY); Cox, Hilary (ENERGY); Ho, Larissa (ENERGY)
Cc:	DeSouza, Avril (ENERGY); Montgomery, Kaitlin (MOF)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 15, 2017 3:48:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 11.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

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Edits from me.

From: Christie, Tim (ENERGY)
Sent: September 15, 2017 3:36 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Cc: DeSouza, Avril (ENERGY) <Avril.DeSouza@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Here are my edits to the matrix. Nothing to add to the business issues list.

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Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

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Attached are the materials for Monday's Rate Mitigation Implementation meeting.

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Hillary

2017 Outstanding Business Issues - Week of S_22.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with OPG for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

2017-09-08 Consolidated - OFHP Matrix - Week _20.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel.	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection

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Item	Key Deliverables / Considerations	Timing / Next Steps
	o Interest/Fees Collection During the Inflationary Cap Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. ~~o (OPG, IESO and Energy to work through approach)~~ ~~o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG ~~– IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required ~~• ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ o	• Late November 2017 – OPG Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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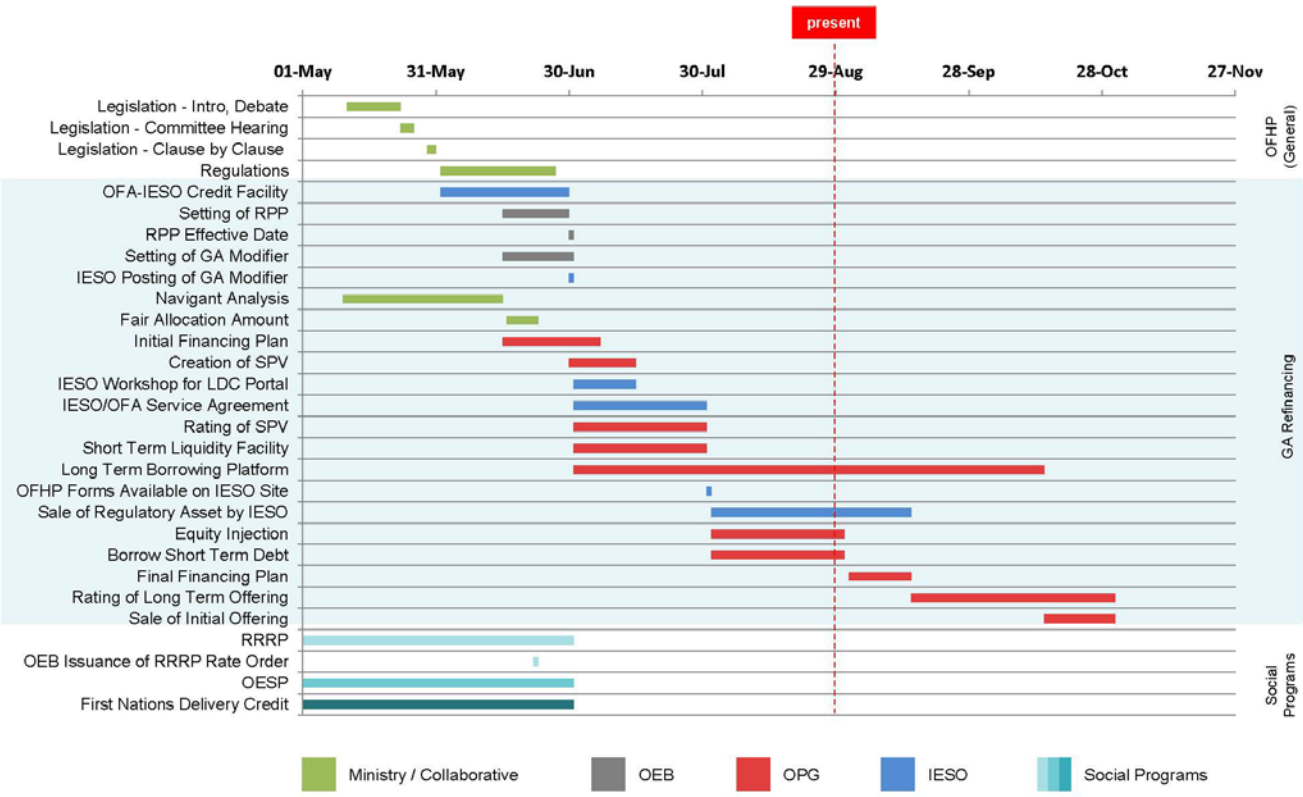
Item	Key Deliverables / Considerations	Timing / Next Steps
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre /	**September 2017:** Target for program launch **Q2 2017-2018:**

Item	Key Deliverables / Considerations	Timing / Next Steps
	Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	• Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(3).pdf

From:	Thouin, Alena (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 26, 2017 4:37:56 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11 (2).docx

Hi Hilary
Attached are my comments/changes.
One thing that is not in the chart is the GA Reg. I believe that decision has been made with respect to funding out of the GA and LSB/ESPD are working on a draft Reg amendments. I included that in the comments attached.

Happy to chat.

Thanks
Alena

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-08 Consolidated - OFHP Matrix - Week _21.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB shared ~~to share~~ with OEB ~~/and~~ Legislative Counsel. Leg Counsel Draft has been made available to comments to	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid~~ Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	OPG/OEB. o Interest/Fees Collection During the Inflationary Cap Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. ~~o (OPG, IESO and Energy to work through approach)~~ ~~o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG ~~– IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required ~~• ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in

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Commented [TA(1]: The decision has been made and LSB/ESPD etc. have been working on a draft Reg. Draft has been made available for comments.

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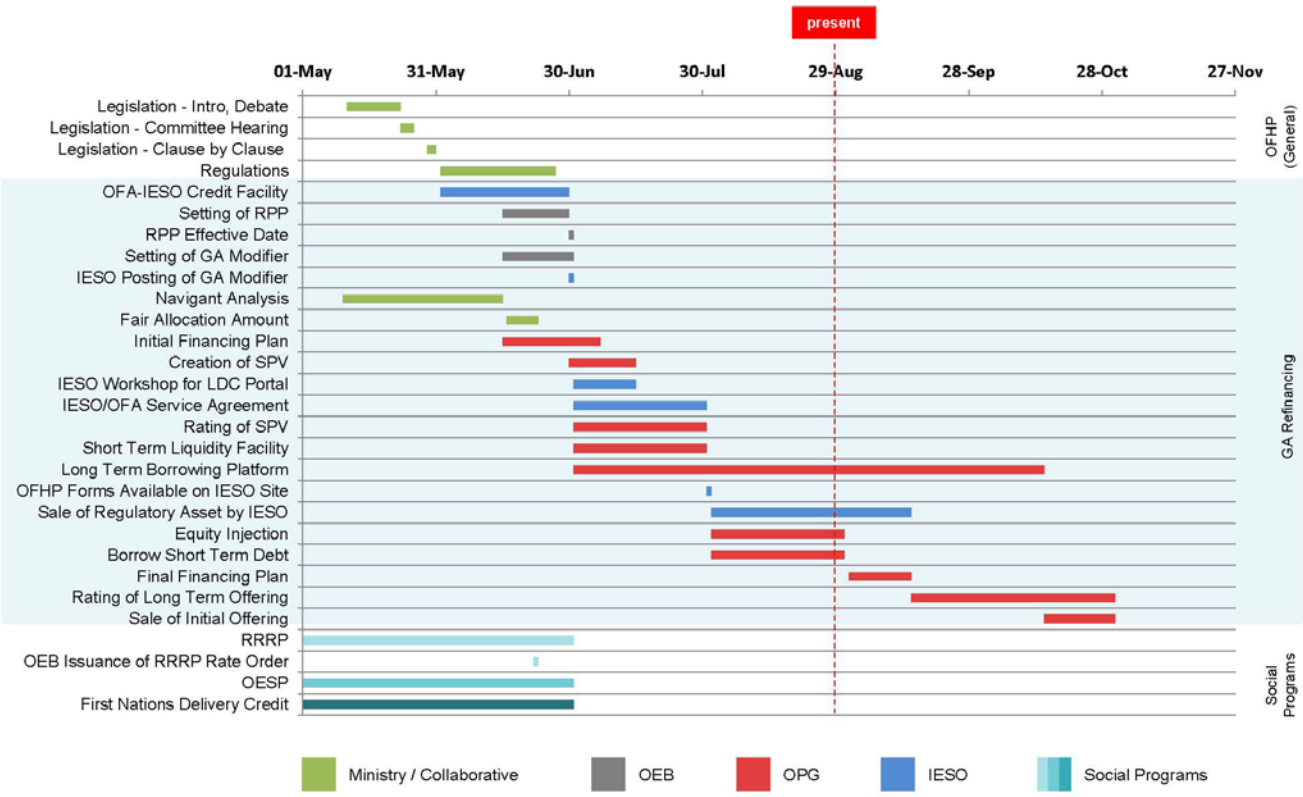
Item	Key Deliverables / Considerations	Timing / Next Steps
		August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three	**September 2017:** Target for program launch **Q2 2017-2018:**

Item	Key Deliverables / Considerations	Timing / Next Steps
	LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	• Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(4).pdf

From:	Feather, Adam (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 10:24:10 AM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11 - DAP.DOCX

SNAP ADM approved edits attached.

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-08 Consolidated - OFHP Matrix - Week _22.pdf

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Implementation of Ontario's Fair Hydro Plan

Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid~~ Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projections for PRRT

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Item	Key Deliverables / Considerations	Timing / Next Steps
		submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs. • OEB and MCSS ~~executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP~~completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and • ~~Targeted outreach and automatic SA client enrolment by MCSS to start late September;~~ MCSS to continue developing software solution for automation over next several months. • ~~Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution~~CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance. • ~~SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base~~Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments. • Ministry and OEB have initiated work to transfer OESP to government.	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • ~~Ministry working on post card for FNDC~~FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projection for PRRT. • Hydro One to provide update on program enrollment week of October 2nd.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

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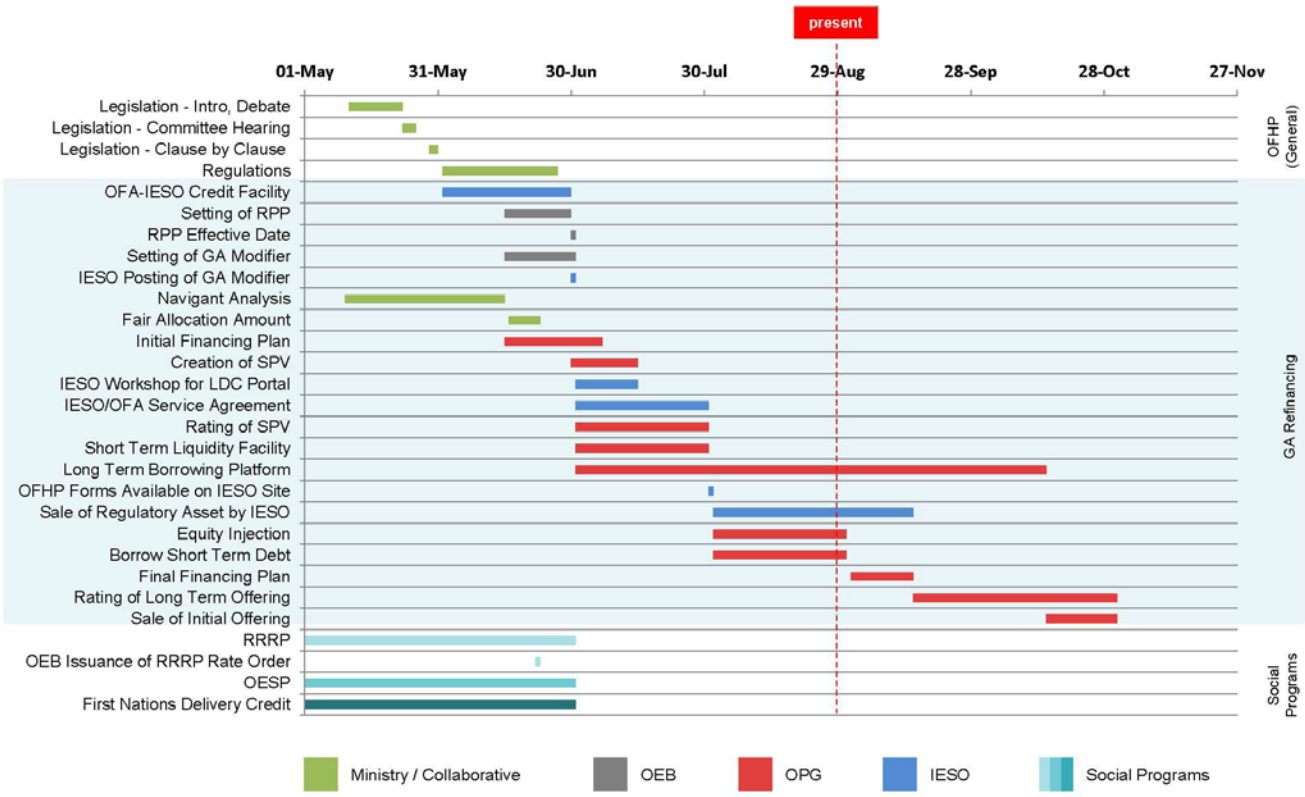
Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• ~~Fall 2017~~2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Commented [SB(1]: OESP implementation should be extended to end of November. It had multiple milestones to date (2 reg changes, 1 leg change, MCSS alignment, 50% + expansion) and has more to come (shift to tax base, government administration, further MCSS automation of OESP).

RE_ Rate Mitigation Implementation Meeting Mate...(5).pdf

From:	Schwab-Pflug, Emma (ENERGY)
To:	Syed, Usman (ENERGY)
Cc:	Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 1:54:20 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 11 CEEB v4.docx

Usman, see revised attached included A-Fund logo – have written "ENERGY is proposing…" in case DM is not yet briefed on this. Thanks, Emma

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From: Syed, Usman (ENERGY)
Sent: September-27-17 10:06 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Thanks, I think we should add that we are planning to amend the TPA to ensure use of Ontario logo so that DM is aware that we will be looking for his signature soon…

- Usman

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Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Usman, please see attached and below. We considered adding use of the logo, but thought we would wait for the BN to go up first. Can add if preferred. Thanks, Emma

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Subject: RE: Rate Mitigation Implementation Meeting Materials

Emma,

See attached for Afund updates to the OFHP matrix. Nothing for us in the Outstanding Business Issues note

Musab

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Subject: FW: Rate Mitigation Implementation Meeting Materials

Musab, could you take a quick look tomorrow morning for any updates? I don't think we need to mention use of the logo yet, we'll send up the BN on this first.

Thanks,
Emma

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Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Do we have any updates to the A-Fund content?

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Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-27 Consolidated - OFHP Matrix - Week _27.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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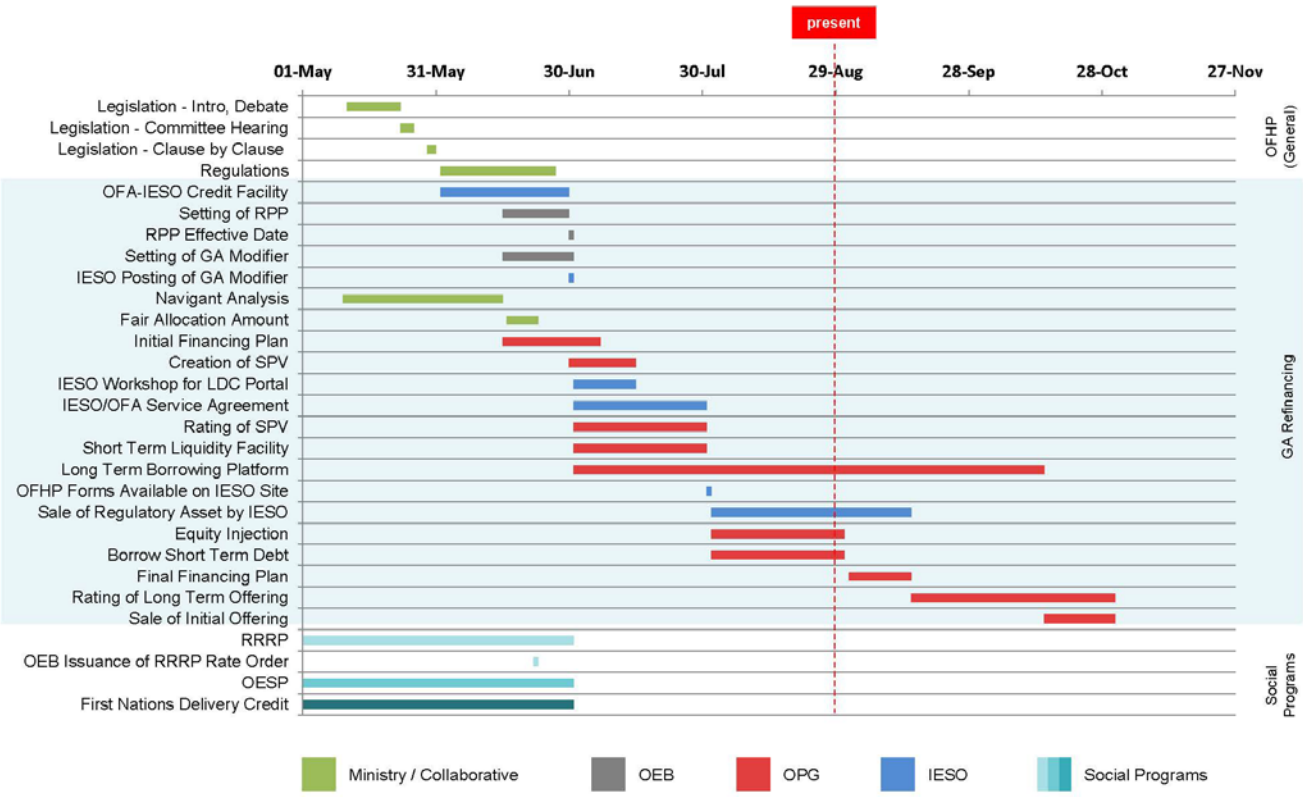
Item	Key Deliverables / Considerations	Timing / Next Steps
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of	**~~September~~ October 2017:** Target for program launch **~~Q2 2017-2018~~Fall 2017:** • The Trustees are considering submitting a proposal to

Item	Key Deliverables / Considerations	Timing / Next Steps
	Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated. • ~~Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants)~~ • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program ~~as soon as possible~~in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • ~~Trustees have agreed to Hydro One's role as administrator~~ • ~~Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)~~ • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund. • ~~Trustees to brief Ministry on August 28~~	MCSS for the use of Ontario 211 services for the Affordability Fund. • ENERGY is proposing to amend TPA with the Affordability Fund Trust~~ees~~ to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year ~~2018-19~~ ~~PRRT~~ TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records	• Summer – Responding to AG Request (Ongoing)

Item	Key Deliverables / Considerations	Timing / Next Steps
	• TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(6).pdf

From: Sermat-Harding, Kaili (ENERGY)
To: Edwards, Matthew (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials
Date: September 27, 2017 2:24:00 PM
Attachments: 2017-09-27 Consolidated - OFHP Matrix - Week of September 11 CEEB v4.docx

---

Thanks, this includes an untracked edit.

From: Edwards, Matthew (ENERGY)
Sent: September-27-17 2:23 PM
To: Sermat-Harding, Kaili (ENERGY)
Subject: Rate Mitigation Implementation Meeting Materials

Kaili,

See attached CEEB updates to the OFHP Matrix for use tomorrow morning.

ESP has asked for this ASAP.

Thanks,

Matt

From: Syed, Usman (ENERGY)
Sent: September 27, 2017 2:20 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Cc: Schwab-Pflug, Emma (ENERGY) <Emma.Schwab-Pflug@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Here you go…

From: Schwab-Pflug, Emma (ENERGY)
Sent: September 27, 2017 1:54 PM
To: Syed, Usman (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

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<Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-27 Consolidated - OFHP Matrix - Week _28.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
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Item	Key Deliverables / Considerations	Timing / Next Steps
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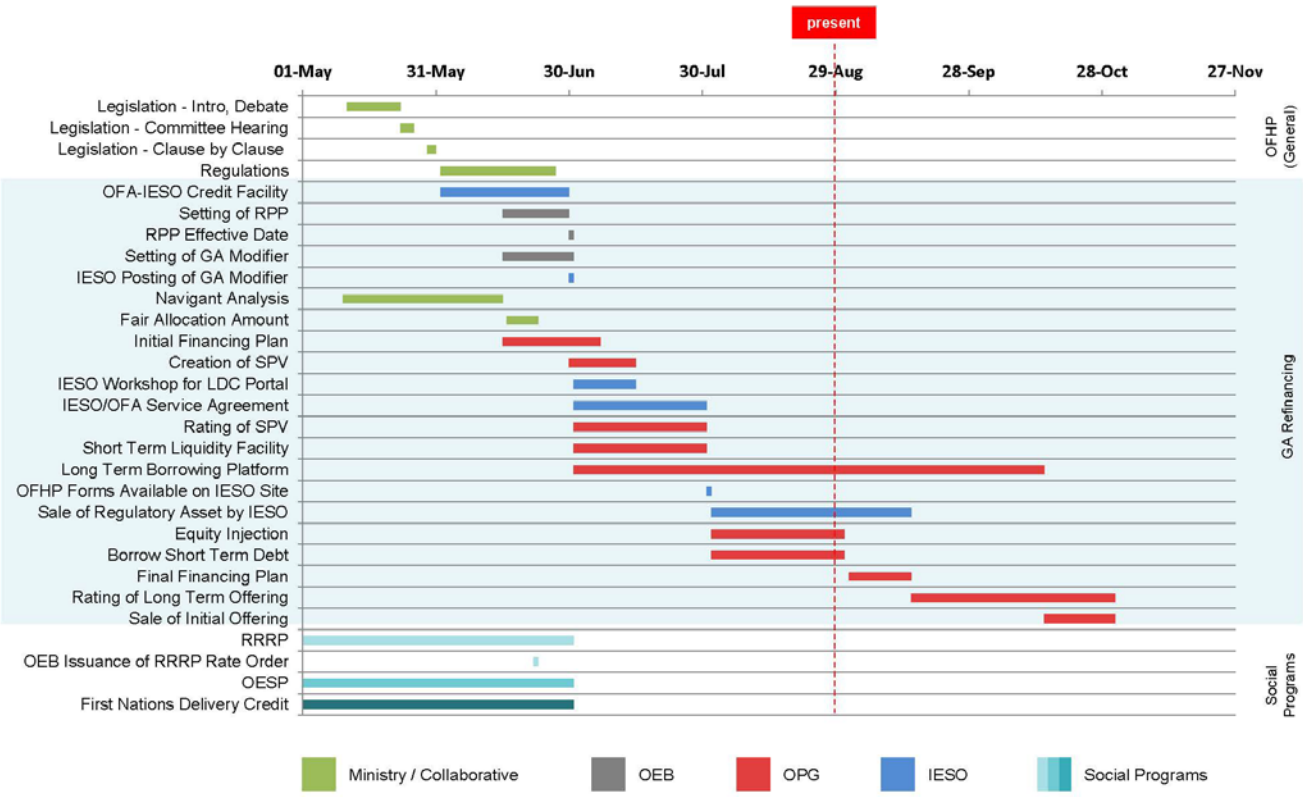
Item	Key Deliverables / Considerations	Timing / Next Steps

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(7).pdf

From:	Edwards, Matthew (ENERGY)
To:	Cox, Hilary (ENERGY); Katona, Keley (MOF); Feather, Adam (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Thouin, Alena (ENERGY)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 2:27:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 11 CEEB v4.docx

Hilary,

CRED edits to Affordability Fund content updated (untracked).

Let me know if you have any questions.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 12:31 PM
To: Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

No problem.

From: Katona, Keley (MOF)
Sent: September 27, 2017 12:31 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

We'll have updates but in meetings, will have to send a bit later.

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 12:24 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Thanks.

Keley, anything from IGS? We'll want to have these consolidated for distribution by about 4 pm please.

HC

From: Edwards, Matthew (ENERGY)
Sent: September 27, 2017 12:23 PM
To: Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Sorry for delay. We've had some ongoing updates with the Affordability Trust, so will try and have an update for that ASAP.

From: Feather, Adam (ENERGY)
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To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

SNAP ADM approved edits attached.

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-27 Consolidated - OFHP Matrix - Week _29.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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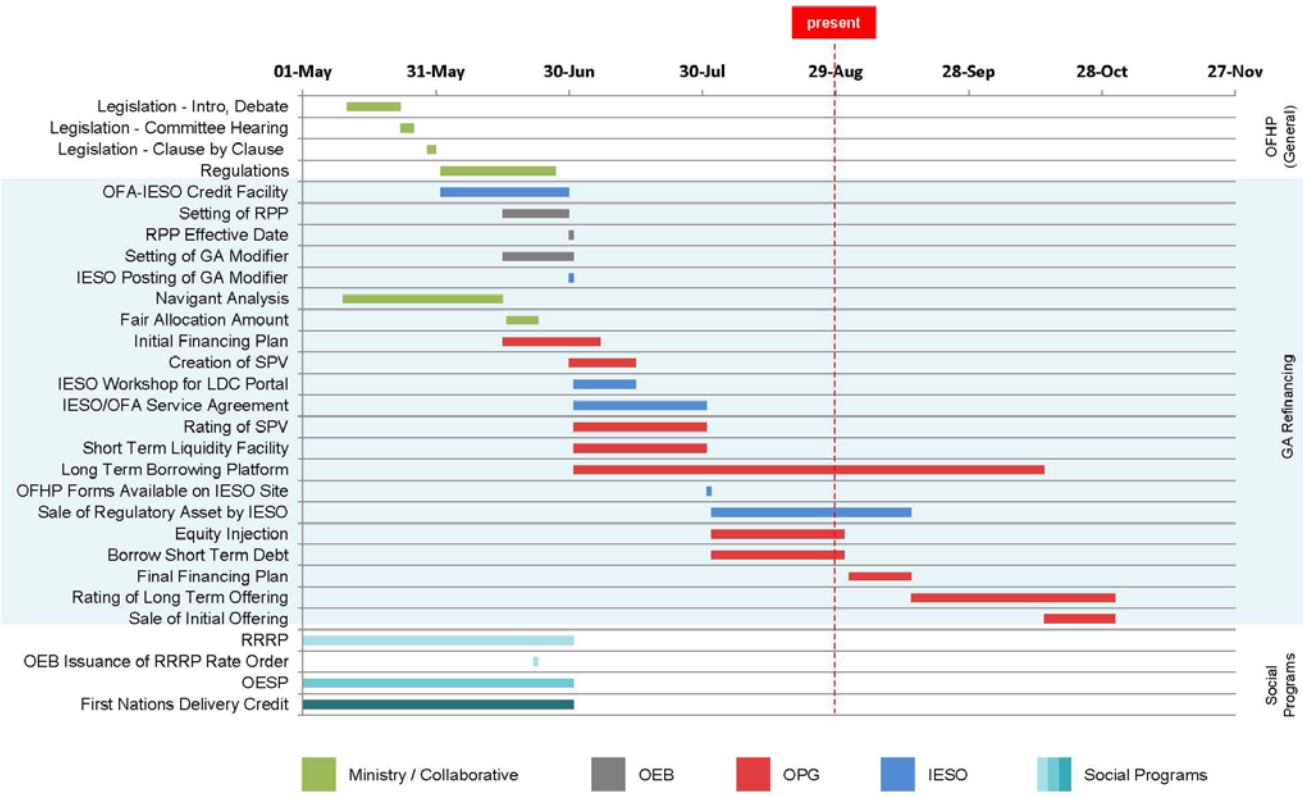
Item	Key Deliverables / Considerations	Timing / Next Steps
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211

Item	Key Deliverables / Considerations	Timing / Next Steps
	Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist). • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated. • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund.	services for the Affordability Fund. • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications. • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets. **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust.
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was	• Summer – Responding to AG Request (Ongoing)

Item	Key Deliverables / Considerations	Timing / Next Steps
	provided to the AG • AG attended special meeting of IESO Board on OFHP	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(8).pdf

From:	Katona, Keley (MOF)
To:	Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Feather, Adam (ENERGY)
Cc:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Thouin, Alena (ENERGY); Montgomery, Kaitlin (MOF)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 2:30:20 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 25.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 25.docx

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Updates from IGS attached.

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 2:28 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
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Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

Hilary,

CRED edits to Affordability Fund content updated (untracked).

Let me know if you have any questions.

Thanks,

Matt

From: Cox, Hilary (ENERGY)
Sent: September 27, 2017 12:31 PM
To: Katona, Keley (MOF) <Keley.Katona@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>
Cc: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Subject: RE: Rate Mitigation Implementation Meeting Materials

No problem.

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Sent: September 27, 2017 12:31 PM
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Subject: RE: Rate Mitigation Implementation Meeting Materials

We'll have updates but in meetings, will have to send a bit later.

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SNAP ADM approved edits attached.

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Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017 Outstanding Business Issues - Week of S_23.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: ~~Late Sept/Early Oct~~OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with ~~OPG~~MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

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2017-09-08 Consolidated - OFHP Matrix - Week _23.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – ~~Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th~~ Protection Agreement went to TB on September 25 and Cabinet September 27. – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
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2) Broadening Rural or Remote Rate Protection (RRRP)		

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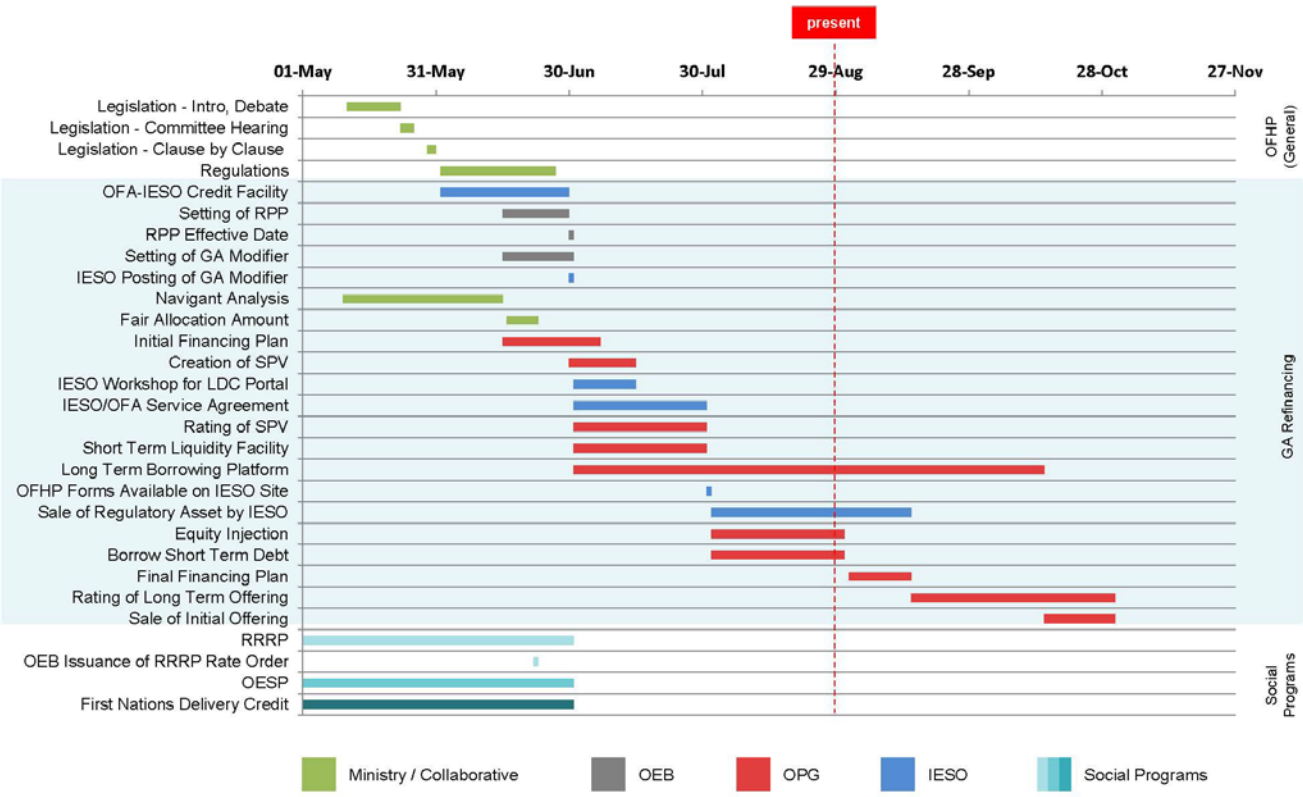
Item	Key Deliverables / Considerations	Timing / Next Steps
(SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes,	Recent Action Items	**September 2017:**

Item	Key Deliverables / Considerations	Timing / Next Steps
CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	• On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was	• Summer – Responding to AG Request (Ongoing)

Item	Key Deliverables / Considerations	Timing / Next Steps
	provided to the AG • AG attended special meeting of IESO Board on OFHP	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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RE_ Rate Mitigation Implementation Meeting Mate...(9).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY); O"Riordan, Eamon (ENERGY)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 27, 2017 2:54:50 PM
Attachments:	2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.docx 2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolidated.docx

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Hilary, consolidated edits from ESP, LSB, IGS, SNAP, CRED.

From: Cox, Hilary (ENERGY)
Sent: September-26-17 3:44 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Thouin, Alena (ENERGY); Katona, Keley (MOF)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –

Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017 Outstanding Business Issues - Week of S_24.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: ~~Late Sept/Early Oct~~OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with ~~OPG~~MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OPG~~OEB Rate &~~ Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE~~, and~~ OFA and OEB working to develop proposed regulation which would~~to~~ determine role of OEB in determining fees OPG charges **Timing**: Proposed ~~R~~regulation expected to be reviewed at October 16 LRC.~~by the fall~~
OPG Fees and Interest Recovery	• OPG accounting advise that interest and fees must be recovered during "inflationary cap" period	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA	• OPG, ENE, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via G~~g~~lobal A~~a~~djustment.

	for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.	Regulations	

2017-09-27 Consolidated - OFHP Matrix - Week _30.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – ~~Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th~~ Protection Agreement term sheet went to TB on September 25 and Cabinet September 27. – OFA / OPG / MOF / ENERGY / OPCD working to finalize ~~draft term sheet for~~ Protection agreement ~~(to be included in TB submission)~~ – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account ~~– need to determine quantum~~ – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ ~~Draft received from OPG. LSB~~ shared ~~to share~~	• ~~July 1 – 25% takes effect~~ • ~~Summer – Prepare Minister's Fair Allocation Amount (TBD)~~ • ~~Summer – LRC/Cabinet Approval Management Fee regulation (TBD)~~ • ~~Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD)~~ • ~~Mid-~~ Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting October 16~~4141~~1414 – LRC for Management Fees and interest regulation and regulatory amendments

Item	Key Deliverables / Considerations	Timing / Next Steps
	with OEB /and Legislative Counsel. Leg Counsel Draft has been made available to comments to OPG, ENE, OFA and /OEB working to develop proposed regulation which would determine role of OEB in determining fees OPG charges. ▪ Leg Counsel Draft has been circulated o Interest/Fees Collection During the Inflationary Cap Period ▪ ENE/LSB/IESO/OEB/OPG working to develop amendments to Ontario Regulation 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA. Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Letter is pending Minister's approval. Final decision required on business issues before finalizing model. o OPG Equity Injection Process: OPG seeking Board approval of Master Subscription Agreement on September 29. Province to finalize internal mechanisms in October o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter/regulation re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September	related to interstinterest and /fees collection during the Inflationary Cap • • Late November 2017 – OPG Financing (TBD) • Late November 2017 – OPG Financing (TBD)

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Item	Key Deliverables / Considerations	Timing / Next Steps
	• OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG o	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry.	• Will hold a wrap-up working group teleconference in August. Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs. • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESPcompleted data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and • Targeted outreach and automatic SA client enrolment by MCSS	• Week of August 7 – follow-up with CRA on proposed wet signature solution

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Item	Key Deliverables / Considerations	Timing / Next Steps
	~~to start late September;~~ MCSS to continue developing software solution for automation over next several months. • ~~Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution~~CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance. • ~~SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base~~Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments. • Ministry and OEB have initiated work to transfer OESP to government.	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • ~~Ministry working on post card for FNDC~~FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projection for PRRT. • Hydro One to provide update on program enrollment week of October 2nd.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-	~~September~~October **2017:** Target for program launch ~~Q2~~Fall **2017~~-2018~~:** • The Trustees are considering the use of Ontario 211 services for the Affordability

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Item	Key Deliverables / Considerations	Timing / Next Steps
	voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist~~)~~). • ~~Stakeholder engagement is underway; preliminary outreach~~Preliminary consultations with ~~several~~ LDCs ~~conducted~~were undertaken in July~~ and~~. On August 1, Hydro One hosted a ~~WebEx and in-person meeting seeking feedback from~~consultation session with LDCs to seek input on program design~~ held August 1 (~70 participants)~~; over 30 LDCs participated. • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program ~~as soon as possible~~in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • ~~Trustees have agreed to Hydro One's role as administrator~~ • ~~Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)~~ • ~~Trustees to brief Ministry on August 28~~Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund. •	Fund. • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications. • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets. **Late 2017/early 2018:** • ENERGY can apply for additional funds through ~~2018-19 PRRT~~an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust.
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records	• Fall~~Summer~~ – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft

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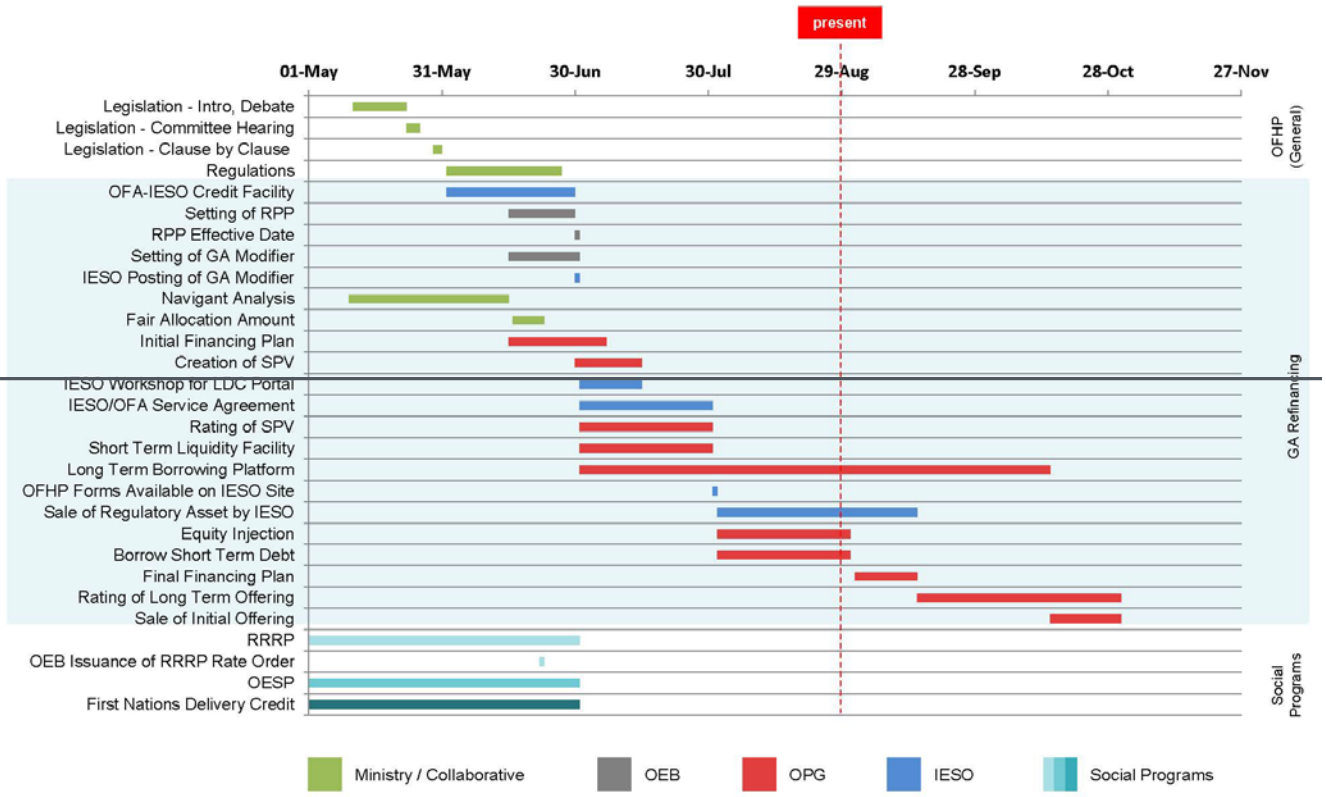
Item	Key Deliverables / Considerations	Timing / Next Steps
	• TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has shared a draft special report on Ontario's Fair Hydro Plan (OFHP) with Ministry of Energy	AG special report on OFHP.
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• ~~Fall 2017~~2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations.	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	IESO: • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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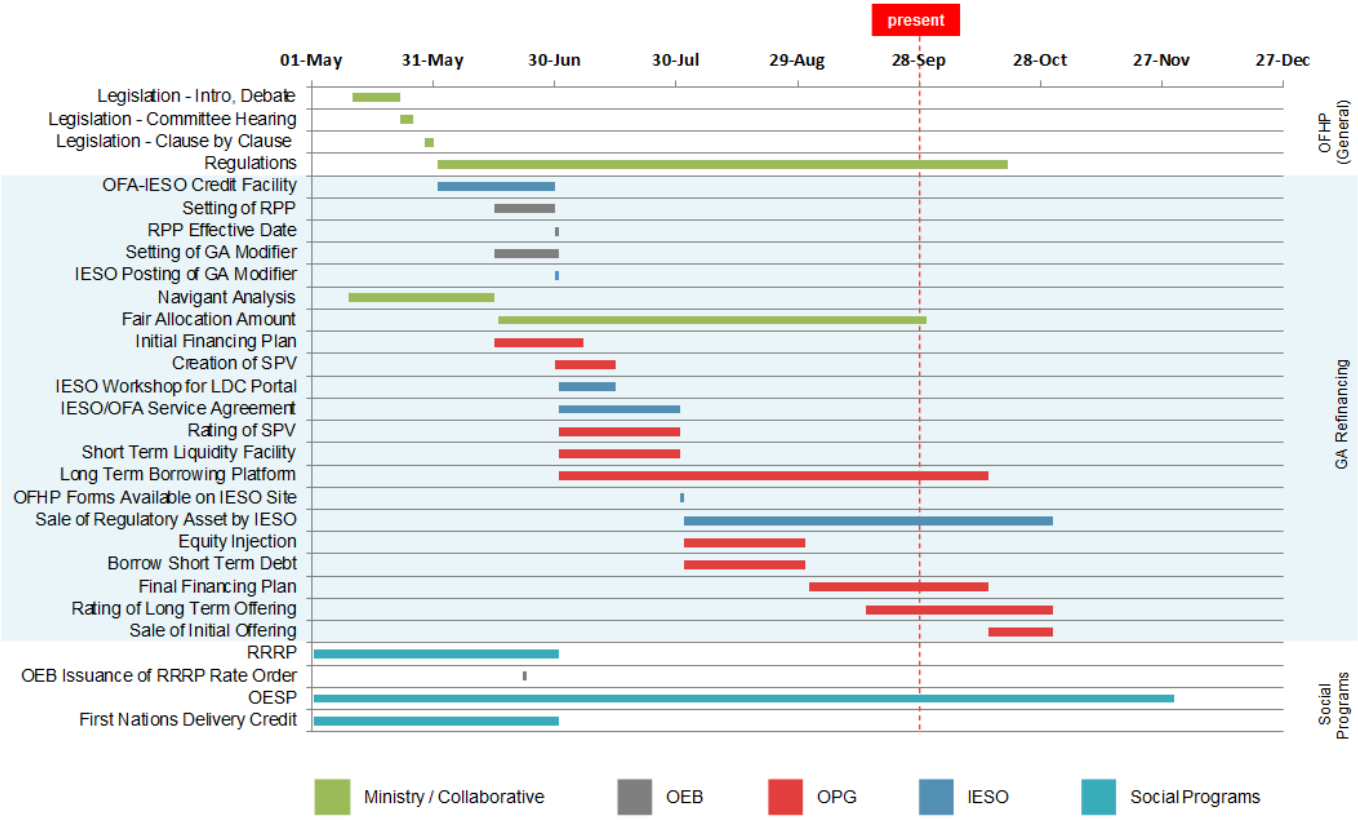
Commented [SB(2]: OESP implementation should be extended to end of November. It had multiple milestones to date (2 reg changes, 1 leg change, MCSS alignment, 50% + expansion) and has more to come (shift to tax base, government administration, further MCSS automation of OESP).

Commented [LH3]: To be replaced with the updated version below.

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Commented [LH4]: Updated version

RE_ Rate Mitigation Implementation Meeting Mate....pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Ho, Larissa (ENERGY); Montgomery, Kaitlin (MOF)
Cc:	DeSouza, Avril (ENERGY)
Subject:	RE: Rate Mitigation Implementation Meeting Materials
Date:	September 15, 2017 3:15:00 PM
Attachments:	Action Items_Sept 14_v2.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi All,

Quick reminder that these products should be updated by EOD according to action items from yesterday's meeting. The action items sent around by Martin are attached as well for reference.

Thanks,
Ava

From: Cox, Hilary (ENERGY)
Sent: September 13, 2017 2:53 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Ho, Larissa (ENERGY) <Larissa.Ho@ontario.ca>; Montgomery, Kaitlin (MOF) <Kaitlin.Montgomery@ontario.ca>
Cc: Lightbody, Ava (ENERGY) <Ava.Lightbody@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
I'll be off tomorrow and Friday so am hoping that after tomorrow's rate mitigation implementation group, you can all update the attached products with action items and return to Ava by EOD Friday. She'll send up to Martin in DMO.

HC

From: Armstrong, Hillary (ENERGY)
Sent: September 8, 2017 7:48 PM
To: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>; Sermat-Harding, Kaili (ENERGY) <Kaili.Sermat-Harding@ontario.ca>; Nelms, Scott (MOF) <Scott.Nelms@ontario.ca>; Calwell, Carolyn (ENERGY) <Carolyn.Calwell@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>
Cc: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Rate Mitigation Implementation Meeting Materials

Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,

Hillary

Action Items_Sept 14_v2_3.pdf

Action Items – September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG Board meeting set up for Sept 27 to seek approval of the structure (materials typically go to the Board a week in advance). OPG will require finals or advanced drafts of the support agreement, FAA model, and fees regulation
        - OPG and IESO continue to work on LOC to protect against LDC defaults, or an alternative of a guarantee, to land for next week
            - A LOC could require a change to the general regulation (could track to Oct 16 LRC)
            - IESO/ENERGY Legal continue discussions on the LOC to flesh out any required regulatory changes
    - Supporting Agreement (OFA/OPG)
        - OPG has indicated that EY doesn't believe the agreement, as currently drafted, will pass the consolidation test.
        - OFA/ENERGY to work with OPG to determine what can be done to address this concern
        - TB/MBC will likely move to Monday Sept 25
    - Business Item (OPG/IGS)
        - Moratorium period will last for until 2022. After that, both interest and principal will flow through CEAs.
        - Treatment of interest during first four years is still not resolved. ENERGY to work with IESO to investigate alternatives to GA.
    - Fees (ENERGY)
        - ENERGY legal is working through latest proposal from OPG and a draft that will not substantially change is needed for Board meeting. Proposal has been shared with OEB but has not yet been formally drafted by legislative counsel.
    - FAA (ENERGY/OPG)
        - Energy and OPG to meet in the next few days to finalize the FAA model with an aim to get the Minister's signature on the FAA letter next Thursday

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
        - No updates
    - Affordability Fund (CRED)
        - Trustees are currently meeting on a weekly basis and working towards a soft launch in early October

2017-09-08 Consolidated - OFHP Matrix - Week _24.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

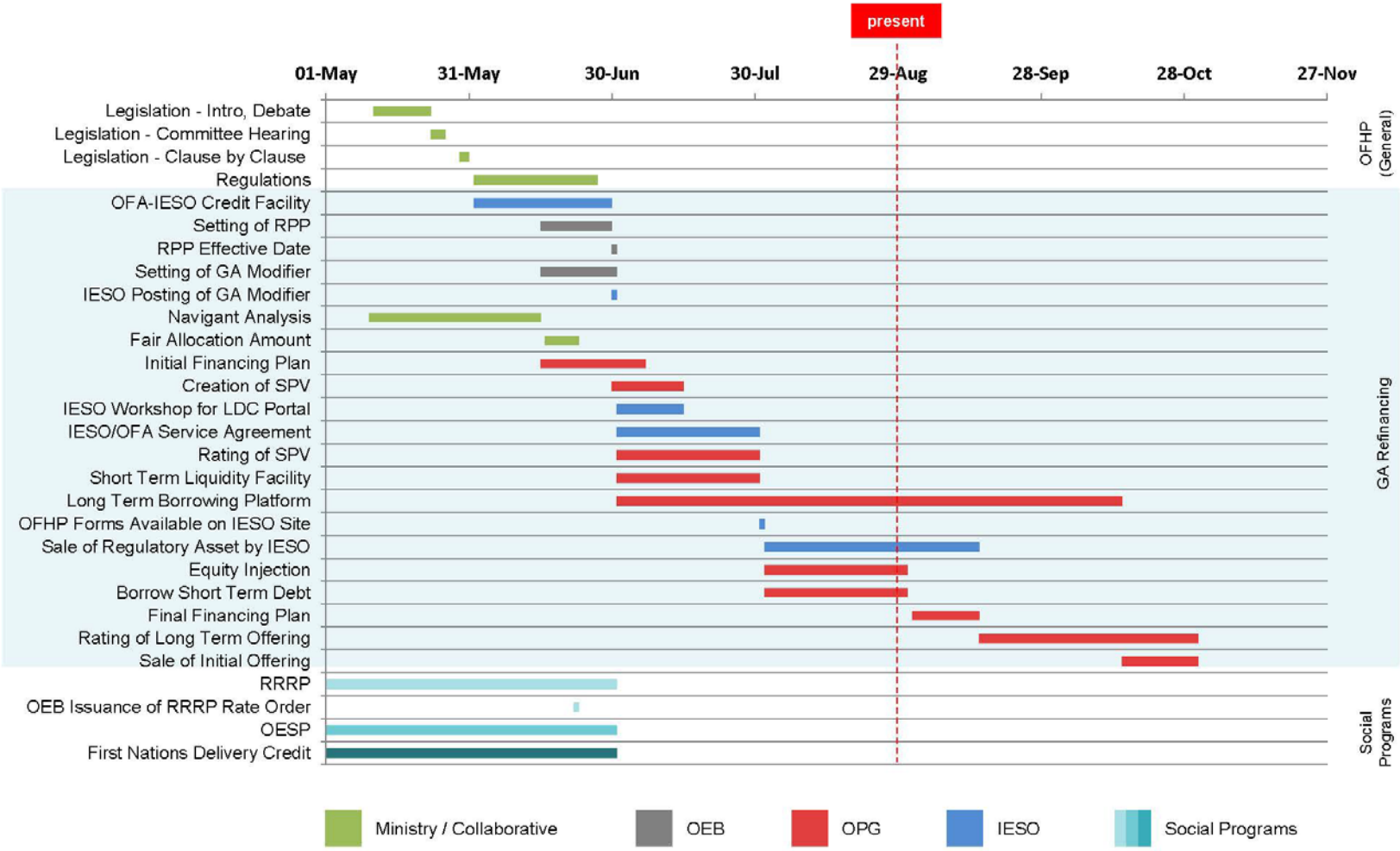
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_25.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

RE_ SCOPA - Logistics Note for Attendees + Upda....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Nelson, Dane (TBS); McLean, David (MOF)
Cc:	Ue, Allison (TBS)
Subject:	RE: SCOPA - Logistics Note for Attendees + Updated Materials
Date:	February 27, 2018 5:11:00 PM

Thanks, Dane.

From: Nelson, Dane (TBS)
Sent: February 27, 2018 5:00 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; McLean, David (MOF) <David.McLean@ontario.ca>
Cc: Ue, Allison (TBS) <Allison.Ue@ontario.ca>
Subject: FW: SCOPA - Logistics Note for Attendees + Updated Materials

Hi Martin and Dave,

Please find the latest versions of the SCOPA materials attached and a summary of logistics for tomorrow.

The logistics document includes:

- A list of attendees, including suggestions on who is present in the Committee Room (Amethyst Committee Room 151) vs in the Anteroom (Committee Room 2)
- Other details, such as Wi-Fi access and a map of the Legislature

Please remind attendees to have their access card with them tomorrow. They will need to present it at the security desk upon arrival at the Legislature.

The following external attendees have already been registered with security to speed up the sign-in process. We recommend they arrive early to allow about 15 minutes for the security desk to issue their visitor badges.

OPG:
- Ken Hartwick, John Mauti

IESO:
- Peter Gregg, Kimberley Marshall

Staff can meet in the anteroom (Committee Room 2) at 12:00pm to settle in. They can leave their jackets and bags in this room during the appearance. We will also have 'runners' that can escort them to the Committee Room (Amethyst Committee Room 151) as needed.

Revisions since last update

Tab 1_____Agenda & Logistics Overview

Tab 2_____Strategic Approach

Tab 3_____Roles and Responsibilities Outline

Tab 4_____Summary Status Table

Tab 5_____TBS Deputy Angus Opening Remarks (updated)

Tab 6_____Comprehensive QAs

- Secretary of the Cabinet Key Messages (updated)
- Treasury Board Secretariat (updated)
- Ministry of Energy (updated)
- Ministry of Finance

Tab 7_____Long-Form Member QAs

- Treasury Board Secretariat (updated)
- Ministry of Energy
- Ministry of Finance
    - (Q2 Credit Rating updated)
    - (Q3 Debt updated)

Tab 8_____Tips for Presenting at SCOPA

Tab 9_____Auditor General Reports

- 2017 Annual Report: Chapter 2
- 2017 Special Report on the Fair Hydro Plan

Tab 10_____Environmental Scans

- Treasury Board Secretariat
- Ministry of Finance

Tab 11_____Reference Materials

- Government Response to Auditor General's 2017 Annual Report
- House Book Notes

Regards,

Dane Nelson, Senior Policy Advisor
Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

RE_ SCOPA - next wave of materials.pdf

From:	Nucciarone, Michael (ENERGY)
To:	Whytock, John (ENERGY)
Cc:	Nutter, George (ENERGY); Lyon, Sam (ENERGY); Hume, Steen (ENERGY); Schlaepfer, Martin (ENERGY); Cox, Hilary (ENERGY)
Subject:	RE: SCOPA - next wave of materials
Date:	January 23, 2018 11:54:17 AM
Attachments:	SCOPA_QA_Friendly_ENERGY (2).DOCX

Hi John,

Attached are three friendly questions that the Deputy is comfortable with putting forward for SCOPA.

Thanks,
Michael

From: Whytock, John (ENERGY)
Sent: January 23, 2018 10:50 AM
To: Nucciarone, Michael (ENERGY); Hume, Steen (ENERGY); Cox, Hilary (ENERGY); Schlaepfer, Martin (ENERGY)
Cc: Nutter, George (ENERGY); Lyon, Sam (ENERGY)
Subject: FW: SCOPA - next wave of materials

Good morning. We had a teleconference with TBS and Finance this morning about the next wave of products to prepare for Public Accounts. We're expecting there will be a DM regroup the week of Feb 5 and an SoC briefing the week of Feb 12. We're hoping to have drafts of everything ready for sharing with TBS on Monday.

Actions required:

- CB (Adam) will populate the QA template
- CB and ESP can work together on adding detail to the Response Table. This tool is exclusively for briefing the SoC so we should try to cover every angle.
- Martin and Michael, can we please confirm which two friendly questions we want to put forward? Each friendly will require a long scripted answer using the Long Form Member Question template included here. CB can take the first cut at remarks, working with ESP.

Any questions, please let me know.

Thanks

jw

From: Miller, Amanda (TBS)
Sent: January-23-18 9:59 AM
To: Whytock, John (ENERGY); Maloney, Martha (MOF); Spadoni, Peter (MOF); Lyon, Sam (ENERGY); Hendy, Adam (ENERGY)
Cc: DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS); Vrancart, Kate (TBS); Tharani, Alisha (TBS)

Subject: SCOPA - material for 10:00 call

Hi, all,

Attached are the materials for our 10:00 SCOPA check-in discussion.

Regards,

Amanda Miller
Executive Communications Coordinator
Communications Branch, Treasury Board Secretariat

Tel: 416-326-8538

SCOPA_QA_Friendly_ENERGY (2).pdf

Ministry of Energy – Proposed Friendly Questions:

1. To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?

   And, why is the Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

DRAFT

RE_ SCOPA Ch 2 Q_A .pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA Ch 2 Q/A
Date:	February 22, 2018 4:57:58 PM
Attachments:	CH 3 Additional Questions - EPE.docx

Hilary, here are the new SCOPA QAs.

From: Cox, Hilary (ENERGY)
Sent: February-22-18 10:04 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2 Q/A

I believe this is the QA package Steen had actually intended to send.

HC

From: Hume, Steen (ENERGY)
Sent: February 22, 2018 9:17 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2 Q/A

Good morning. Attached is the current package of difficult QAs and some additional ones that I'd like to discuss at 9:30.

Thanks, Steen

CH 3 Additional Questions - EPE.pdf

Additional Questions

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced. Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Commented [LA(1]: Optional language if we want to provide additional clarity around the borrowing/repayment schedule.

Q. Does OPG make money running the Fair Hydro Trust?

OPG was identified as the Financial Services Manager responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations under the GA refinancing program. OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as Financial Services Manager (FSM). This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation, and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with the Financing Plan developed by OPG, 49% of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program. OPG earns a return on its investment in the Trust, which ensures the transactions are commercial. The remaining 51% of the debt obligations are funded through the capital markets.

Q. You say the $4 billion FAO number is wrong? So how much will it cost?

The $4 billion[1] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[2]. The preliminary estimate from March 2017 was about $28 billion[3].

---

[1] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[2] Ministry of Energy
[3] Ministry of Energy, submission to Financial Accountability Officer

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions. The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

OPG was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as Financial Services Manager, and assume a 5 per cent interest rate.

Q. Why are we refinancing the Global Adjustment through rate base?

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

[4] Ministry of Energy
[5] Ministry of Energy

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP). At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on all electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate, introduced in January 2017, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years. Over this same three year period, the 8 per cent rebate was forecast to cost the government roughly $1 billion dollar per year.

Commented [CD(2]: Costs should be considered placeholders for now until the TB fact-sheet is received.

RE_ SCOPA Ch 2_QA and friendlies(1).pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies
Date: February 6, 2018 9:30:20 AM

Hilary, the social program figures need to come from SNAP.

On the total figure (including the 8%) it varies by year, so we'd need direction on which year. 2017 has higher OREC, but lower social programs as they were only out for part of the year. 2018 would have to be a forecast, and would have smaller OREC (because of GA refinancing) but larger social program reduction.

Tim

From: Cox, Hilary (ENERGY)
Sent: February-05-18 5:28 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Tim and Daniel –
A couple of additional edits/bullets for the SCOPA chapter 2 Friendlies and QA – as below.

I can't seem to track down these numbers, so am hoping you can make the needed edits. I've attached the friendlies (if you can edit this one, I'll flow the revised language over to the QA pkg) with yellow highlight where the new info should go.

Hoping we can get this in first thing in the morning.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 5, 2018 5:10 PM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi there,

Ran the revisions past the Deputy again, and he would like the program costs to be included as well….i.e. moving these programs from the rate base to the tax base removed $ from the rate base, as well as listing the programs and dollar amounts.

That, plus the 8% rebate, equates to $ amount out of rate base.

The Deputy seems to be good with the GA financing portion of the response, but would like the first part to be built out more.

Is this something that we have on hand?

Thanks,
Mike

From: Hendy, Adam (ENERGY)
Sent: February 5, 2018 5:01 PM
To: Cox, Hilary (ENERGY)
Cc: Nucciarone, Michael (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hey Michael,

Did the Deputy get a chance to look at these, or is it looking more like tomorrow morning?

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: February-05-18 12:11 PM
To: Nucciarone, Michael (ENERGY); Hendy, Adam (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi Michael –
ESPD ADM approved revisions attached. These were taken from previously approved March 1 (OFHP tech briefing) QA.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 5, 2018 9:50 AM
To: Cox, Hilary (ENERGY); Hendy, Adam (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi there,

Got some more feedback from the Deputy on the QAs for chapter 2.

For the OFHP questions, the Deputy would like to start with the electicity programs that were moved from the ratebase to the tax base, the rational as to why that was appropriate, and list the programs. Following that, mention the re-financing and shifting costs from the rate base to future years and rational behind that.

In the tracked document I think some of that wording is there, but may have been

removed, so hoping there is wording previously developed that we can pull from.

Happy to chat further if you have any questions.

Thanks,
Mike

From: Cox, Hilary (ENERGY)
Sent: February 2, 2018 6:01 PM
To: Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Comms and DMO –
Attached are the revised (per DM request) and ESPD ADM approved Chapter 2 friendlies and QA.

HC

RE_ SCOPA Ch 2_QA and friendlies(2).pdf

From: Cayley, Daniel (ENERGY)
To: Cox, Hilary (ENERGY); Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies
Date: February 6, 2018 9:53:00 AM

Hilary – the below is out of date and should go to SNAP.

From: Cox, Hilary (ENERGY)
Sent: February 5, 2018 5:28 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

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HC

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Sent: February 5, 2018 5:10 PM
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That, plus the 8% rebate, equates to $ amount out of rate base.

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Is this something that we have on hand?

Thanks,
Mike

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Happy to chat further if you have any questions.

Thanks,
Mike

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To: Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Comms and DMO –
Attached are the revised (per DM request) and ESPD ADM approved Chapter 2 friendlies and QA.

HC

RE_ SCOPA Ch 2_QA and friendlies(3).pdf

From: Cayley, Daniel (ENERGY)
To: Cox, Hilary (ENERGY); Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies
Date: February 6, 2018 9:53:51 AM

Now with the language:

Recognizing that the electricity infrastructure that has been built will last for many decades to come, the province would refinance those capital investments to ensure that system costs are more equitably distributed over time. In addition, a number of important programs, such as the Ontario Electricity Support Program (OESP), will now be funded by the government instead of by ratepayers.

The province will also launch a new Affordability Fund, enhance the existing OESP and Rural or Remote Rate Protection (RRRP) program and provide on-reserve First Nations households with a delivery credit. These new measures will cost the government up to $2.5 billion over the next three years.

From: Cayley, Daniel (ENERGY)
Sent: February 6, 2018 9:53 AM
To: Cox, Hilary (ENERGY); Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hilary – the below is out of date and should go to SNAP.

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To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

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Thanks,
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HC

RE_ SCOPA Ch 2_QA and friendlies(4).pdf

From:	Cox, Hilary (ENERGY)
To:	Nucciarone, Michael (ENERGY); Hendy, Adam (ENERGY)
Subject:	RE: SCOPA Ch 2_QA and friendlies
Date:	February 6, 2018 3:55:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5 DOCX.DOCX.DOCX

Hi Michael and Adam –
ESPD ADM approved revision per DM request below. Lemme know if this works for him.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 5, 2018 5:10 PM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi there,

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Subject: FW: SCOPA Ch 2_QA and friendlies

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Attached are the revised (per DM request) and ESPD ADM approved Chapter 2 friendlies and QA.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _14.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs were forecast[3] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers. In addition, the ongoing funding of these measures through the tax-base will provide ongoing benefits to rate payer into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

[3] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the

Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

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> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

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To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

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3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

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In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

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As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs were forecast[3] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers. In addition, the ongoing funding of these measures through the tax-base will provide ongoing benefits to rate payer into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[3] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

DRAFT

- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[4]. The preliminary estimate from March 2017 was about $28 billion[5].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[6] to approximately $20 billion[7]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[4] Ministry of Energy
[5] Ministry of Energy, submission to Financial Accountability Officer
[6] Ministry of Energy
[7] Ministry of Energy

OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[11] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[12]. The preliminary estimate from March 2017 was about $28 billion[13].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[14] to approximately $20 billion[15]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

[11] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[12] Ministry of Energy
[13] Ministry of Energy, submission to Financial Accountability Officer
[14] Ministry of Energy
[15] Ministry of Energy

The government estimates of total interest cost also decreased from $25 billion[16] to less than $19 billion[17].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[16] Ministry of Energy
[17] Ministry of Energy

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs were forecast[18] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers. In addition, the ongoing funding of these measures through the tax-base will provide ongoing benefits to rate payer into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design

[18] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[19] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

[19] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

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Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

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The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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RE_ SCOPA Ch 2_QA and friendlies.pdf

From:	Cox, Hilary (ENERGY)
To:	Nucciarone, Michael (ENERGY); Hendy, Adam (ENERGY)
Subject:	RE: SCOPA Ch 2_QA and friendlies
Date:	February 5, 2018 12:11:00 PM
Attachments:	SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5 DOCX.DOCX SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5.docx

Hi Michael –
ESPD ADM approved revisions attached. These were taken from previously approved March 1 (OFHP tech briefing) QA.

HC

From: Nucciarone, Michael (ENERGY)
Sent: February 5, 2018 9:50 AM
To: Cox, Hilary (ENERGY); Hendy, Adam (ENERGY)
Subject: RE: SCOPA Ch 2_QA and friendlies

Hi there,

Got some more feedback from the Deputy on the QAs for chapter 2.

For the OFHP questions, the Deputy would like to start with the electicity programs that were moved from the ratebase to the tax base, the rational as to why that was appropriate, and list the programs. Following that, mention the re-financing and shifting costs from the rate base to future years and rational behind that.

In the tracked document I think some of that wording is there, but may have been removed, so hoping there is wording previously developed that we can pull from.

Happy to chat further if you have any questions.

Thanks,
Mike

From: Cox, Hilary (ENERGY)
Sent: February 2, 2018 6:01 PM
To: Hendy, Adam (ENERGY); Nucciarone, Michael (ENERGY)
Subject: FW: SCOPA Ch 2_QA and friendlies

Hi Comms and DMO –
Attached are the revised (per DM request) and ESPD ADM approved Chapter 2 friendlies and QA.

HC

SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5 DOCX.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken~~Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

~~Second, the province has introduced rate relief programs and expanded existing ones.~~

~~In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).~~

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~~The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.~~

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;

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- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
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  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

[15] Ministry of Energy
[16] Ministry of Energy

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Second, the province has introduced rate relief programs and expanded existing ones.~~

~~In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).~~

~~The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

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Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:

Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and

preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _15.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of

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electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a

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strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered*

> *by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are

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regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

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1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

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As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

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management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

<u>Response</u>

<u>Ontario Power Generation's Qualifications</u>

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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RE_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ...(1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE
Date:	February 2, 2018 4:00:29 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPEv2.docx

Here's the friendly.

From: Christie, Tim (ENERGY)
Sent: February-02-18 3:38 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc: Lightbody, Ava (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE

Here's the first one. The other will come shortly.

From: Cox, Hilary (ENERGY)
Sent: February-02-18 2:29 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE

Hey Guys -
As below, Steen's not happy with the edits to the chapter 2 friendlies and QA. Please give these another shot. Still needed back by EOD.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Friday, February 2, 2018 2:27 PM
To: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE

Hi. This is not what I'm looking for. Just need some light adjustments, not a total re-write like they've done. The changes do not reflect the DM's voice.
They have made it worse than COMs.

Disappointed that TIM and Daniel signed off on this.

Thanks

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _16.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   ~~The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.~~

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced in January 2017.

   ~~Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   ~~Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

   ~~Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the~~

Commented [AL1]: Removed as this is covered in comms language below.

Commented [AL2]: Removed as covered by comms language below

[1] ~~Ministry of Energy, *2017 Long-Term Energy Plan*~~
[2] ~~Ministry of Energy, *2017 Long-Term Energy Plan*~~

~~beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets. Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

In the early years, a portion of GA costs ~~will be~~is being financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

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Commented [AL4]: Moved down for flow after "we have moved forward with a plan"

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~~A number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program will now be funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~ Given that the policy objective of GA refinancing is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

Commented [AL5]: Moved down as an addition following GA refinancing description/policy rationale

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In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~OFHP~~ GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Ontario's Fair Hydro Plan also includes additional initiatives to provide relief on electricity bills. The Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhancing the existing OESP and providing on-reserve First Nations with a delivery credit. Ontario's Fair Hydro Plan also includes initiatives that benefit larger consumers, such as the expansion of the Industrial Conservation Initiative (ICI).

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

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- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
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Role of Ontario Power Generation (OPG)

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OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

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In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has been given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

~~OFHP is delivering much-needed rate relief to electricity consumers.~~ The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

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As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

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Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

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KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

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For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

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- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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RE_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ...(2).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Lightbody, Ava (ENERGY); Cayley, Daniel (ENERGY)
Subject:	RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - ADM v2
Date:	February 2, 2018 5:01:18 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -ADM -v1.docx

This version has better flow but shows up with a lot more changes because things have been moved around.

From: Cox, Hilary (ENERGY)
Sent: February-02-18 4:58 PM
To: Christie, Tim (ENERGY)
Cc: Lightbody, Ava (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - ADM v2

Close, but yeah – flow. The new text still seems to be in the middle of the wrong section. Are you ok for me to just plunk it where I think it should be and send back to you for approval?

HC

From: Christie, Tim (ENERGY)
Sent: February 2, 2018 4:52 PM
To: Cox, Hilary (ENERGY)
Cc: Lightbody, Ava (ENERGY); Cayley, Daniel (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - ADM v2

Hilary, this is the version that Steen sent back with only grammatical/tense edits. We think the flow could be improved, but this seems to be what Steen is looking for?

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _17.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   ~~Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   ~~Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

   ~~Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

To address the impact of our electricity system investments on ~~relieve the current burden on~~ consumers, the following ~~two streams of~~ initiatives ~~where~~are being ~~are being~~ undertaken.

First, ~~In the early years,~~ a portion of Global Adjustment (GA) costs ~~will be~~is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

Second,~~.~~ ~~The~~the province has introduced rate relief programs and expanded existing ones.

In addition, ~~A~~a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced~~ing~~ the existing OESP, and is providing on-reserve First Nations with a delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

~~In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.~~

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

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This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with

our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;

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5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
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When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
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Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

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These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

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- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

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KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

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   Ontario Power Generation's Qualifications

   Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

   OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

   In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

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OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

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- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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RE_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ...(3).pdf

From: Cayley, Daniel (ENERGY)
To: Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5
Date: February 6, 2018 10:23:00 AM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx

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Tim – edits in this version after consulting with Mike Smith (I still feel strongly that this should be shared for SNAP approval). Of note, we should not be characterizing the total amount as a shift (ie. "out of the rate base"), as it includes funding from the expanded/new programs that were never funded from the ratebase. The updated OREC forecast as shared with TB in October is below. Overall, I think using this number is a bad idea, given that the social program estimate is out of date (as per Mike) and we know that the OREC forecast overestimates the cost of the program.

FY	ENERGY cost estimate – March 2017 ($M)	ENERGY cost estimate – Oct 2017 ($M)
2017-18	939	883
2018-19	882	860
2019-20	882	861

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 6, 2018 10:04 AM
To: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

I've included the 2.5 billion that Steen and the DM have requested. Please fill in the blank highlighted in yellow (for the OREC number) and return for ADM approval.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _18.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

These new measures ~~will~~were forecast to cost the government up to $2.5 billion over the ~~next~~first three fiscal years of the OFHP. When you include ~~That, plus~~ the 8% rebate, the total for this period comes to ~~equates~~up to $~~XX~~5.1 billion~~ out of the rate base~~.

Commented [CD(1]: OREC is $2.6B for fiscal year 17-18 through fiscal year 19-20 under the October 2017 forecast that was shared with TB.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

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With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

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Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*

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> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

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The accounting change was reviewed by IESO's Board of Directors, and approved.

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

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DRAFT

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- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
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As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

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DRAFT

RE_ SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG ...(4).pdf

From: Cayley, Daniel (ENERGY)
To: Christie, Tim (ENERGY)
Cc: Lightbody, Ava (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5
Date: February 6, 2018 12:26:54 PM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx

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Tim – revised as per our discussion with Steen.

Daniel

From: Christie, Tim (ENERGY)
Sent: February 6, 2018 10:57 AM
To: Cox, Hilary (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

Hilary, see below for the figures, and also Daniel's concerns (which I echo) about using these figures. They are out of date, and not a "shift from the ratebase". I see no upside and lots of downside if they're used. I didn't see your other email until I'd already left so I haven't discussed this with Steen.

From: Cayley, Daniel (ENERGY)
Sent: February-06-18 10:23 AM
To: Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

Tim – edits in this version after consulting with Mike Smith (I still feel strongly that this should be shared for SNAP approval). Of note, we should not be characterizing the total amount as a shift (ie. "out of the rate base"), as it includes funding from the expanded/new programs that were never funded from the ratebase. The updated OREC forecast as shared with TB in October is below. Overall, I think using this number is a bad idea, given that the social program estimate is out of date (as per Mike) and we know that the OREC forecast overestimates the cost of the program.

FY	ENERGY cost estimate – March 2017 ($M)	ENERGY cost estimate – Oct 2017 ($M)
2017-18	939	883
2018-19	882	860
2019-20	882	861

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 6, 2018 10:04 AM
To: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5

I've included the 2.5 billion that Steen and the DM have requested. Please fill in the blank highlighted in yellow (for the OREC number) and return for ADM approval.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _19.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

These new measures ~~will~~were forecast[3] to cost the government up to $2.5 billion over the ~~next~~first three fiscal years of the OFHP. These programs~~That~~, plus the 8% rebate, ~~equates to $XX out of the rate base.~~

~~This will~~are reducinge bills for ~~everyone~~Ontarians, and funding them through the tax base will ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

[3] The $2.5B forecast was developed in the lead up to the release of Ontario's Fair Hydro Plan. Some of the assumptions behind this forecast have changed.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

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In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS*

> *1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

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Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

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When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

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KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

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> statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

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DRAFT

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From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE
Date:	February 2, 2018 3:38:17 PM
Attachments:	SCOPA QAs_MOE_20180129 - DM Edits - EPEv2.docx

Here's the first one. The other will come shortly.

From: Cox, Hilary (ENERGY)
Sent: February-02-18 2:29 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE

Hey Guys -
As below, Steen's not happy with the edits to the chapter 2 friendlies and QA. Please give these another shot. Still needed back by EOD.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Friday, February 2, 2018 2:27 PM
To: Cox, Hilary (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - EPE

Hi. This is not what I'm looking for. Just need some light adjustments, not a total re-write like they've done. The changes do not reflect the DM's voice.
They have made it worse than COMs.

Disappointed that TIM and Daniel signed off on this.

Thanks

SCOPA QAs_MOE_20180129 - DM Edits - EPEv2_1.pdf

QUESTIONS & ANSWERS

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Other ..... **Error! Bookmark not defined.**

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

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For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that any deferred electricity system costs should be borne by the rate-base and not the tax-base.
- GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.
- ~~The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

~~The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills.~~ Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable. Prices have increased because our electricity system is being transformed.

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that wouldto ensure costs are shared more evenly over the years ahead.~~

Ontario's Fair Hydro Plan (OFHP) has lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced in January 2017.

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.
~~To relieve the current burden on consumers, two streams of initiatives are being undertaken.~~

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. GA refinancing operates under a financial and accounting framework that ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

Ontario's Fair Hydro Plan also includes a number of additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, enhanc~~ing~~ed the existing OESP, and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~ The plan includes measures that benefit larger consumers, such as the expansion of the Industrial Conservation Initiative (ICI).

~~Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.~~

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~~In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.~~

~~GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.~~

~~OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.~~

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

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The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

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Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

~~The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.~~

Since 2003, nearly $70 billion -has been invested in the electricity system, including more than $37 -billion in electricity generation to ensure the system is clean and reliable. Prices have increased because our electricity system is being transformed. ~~Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system~~

Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

The reduction reflects a number of initiatives, including the refinancing of a portion of the Global Adjustment (GA), the shifting of cost recovery for electricity support programs (the Ontario Electricity Support Program and the majority of Rural or Remote Rate Protection) from electricity bills to provincial revenues, and the 8 per cent rebate introduced in January 2017.

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[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

As Ontario invested in renewing our electricity system, the government invested in many new generating facilities, most of which operate under 20-year contracts~~The majority of the province's electricity generators have 20-year contracts~~. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA provides significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit them.

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

In the early years, a portion of GA costs will be financed to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

~~Second. The province has introduced rate relief programs and expanded existing ones.~~

Ontario's Fair Hydro Plan also includes a number of additional initiatives to provide relief on electricity bills. ~~A number of important programs such as the~~The Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will now be~~are now funded from provincial revenues instead of by electricity consumers. The province has also launched a new Affordability Fund, has enhanced~~ing~~ the existing OESP and is providing an on-reserve First Nations ~~with a~~ delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

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Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

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Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

DRAFT

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

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The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

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RE_ SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018....pdf

From:	Cayley, Daniel (ENERGY)
To:	Christie, Tim (ENERGY)
Subject:	RE: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)
Date:	February 28, 2018 10:41:00 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)-esp.DOCX

Now with the correct attachment.

From: Cayley, Daniel (ENERGY)
Sent: February 28, 2018 10:41 AM
To: Christie, Tim (ENERGY)
Subject: RE: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Edits attached.

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 10:06 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Hi Guys -
Please give a quick look at the DM's (hopefully final) revised friendly for today and let me know if everything's ok.

As quickly as possible please.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Sent: Wednesday, February 28, 2018 9:54 AM
To: Cox, Hilary (ENERGY); Yordi, Samer (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL (002)

Hi Hilary, Sam,

The Deputy tweaked the friendly QA for SCOPA further last night. Sharing the latest.

Can staff review to ensure everything is accurate.

Happy to chat if you have any questions.

Thanks,
Mike

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_8.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for ~~the OFHP~~Ontario's Fair Hydro Plan.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though the introduction of new and enhanced electricity social programs, such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflects the life of the assets.

   To better understand ~~the~~ Ontario's Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets:

   The first bucket is the Ontario Rebate for Electricity Consumers (OREC) program

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

The second bucket is enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

The third bucket is refinancing the Global Adjustment (GA) over a longer term period of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. ~~That's an 8% rebate~~This provides an average savings of approximately $130 annually or $11 each month. The rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes ~~about~~ nearly five million residential consumers, small businesses and farms. The OREC has an approved 2017-18 expenditure of $939M.

Commented [CD(1]: Note that while this is still the official approved expenditure, our current forecast is $883M and is subject to further reduction.

The second buck~~s~~et of initiatives consists of ~~of enhancing electricity social programs and shifting costs to the taxbase.~~

Commented [CD(2]: Edited to remove repetition

~~H~~helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following programs:

- A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.
  - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill

credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.
    - The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.
    - Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

Commented [CD(3]: Original STBS note showed an average of about $1.6B – defer to SNAP/CSD

And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that have been made to build a clean and reliable electricity system. This more fairly shares the cost of these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario's Fair Hydro Plan ~~(OFHP)~~ is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the

costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Development of Ontario's Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro ~~Plan~~ Trust) that will manage the debt obligations associated with Global Adjustment ~~(GA)~~ refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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~~Ontario Power Generation (~~OPG~~)~~ is uniquely positioned to be the ~~Financial Service Manager (~~FSM~~)~~, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

~~Ontario Power Generation (~~OPG~~)~~ has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

~~Ontario Power Generation (~~OPG~~)~~ currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the ~~Ontario Energy Board (~~OEB~~)~~ with extensive experience in regulatory deferral and variance accounts.

~~Ontario Power Generation (~~OPG~~)~~ has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost ~~to Ontario Power Generation (~~OPG~~)~~. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, ~~Ontario Power Generation (~~OPG~~)~~ completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

~~Ontario Power Generation (~~OPG~~)~~ has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for Global Adjsutment refinancing ~~Ontario's Fair Hydro Plan (OFHP) initiative~~. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

~~Ontario Power Generation (~~OPG~~)~~ has a strong track record of producing high-quality financial reports on a timely basis. In addition, ~~Ontario Power Generation (~~OPG~~)~~ will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, ~~Ontario Power Generation (~~OPG~~)~~ is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

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Finally, ~~Ontario Power Generation's (~~OPG)~~-~~Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Fair Hydro Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario's Fair Hydro Plan ~~(OFHP)~~ is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment ~~(GA)~~ refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*

> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

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We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

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When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

2. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   <u>Response</u>

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

DRAFT

RE_ SCOPA Chapter 3 - FINAL.pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA Chapter 3 - FINAL
Date:	March 5, 2018 4:42:29 PM
Attachments:	SCOPA Chapter 3 - FINAL -20180305-EPE.docx

Hilary here are the edits and the new question on OPG (with a placeholder response).

From: Cox, Hilary (ENERGY)
Sent: March-05-18 3:52 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - FINAL

Hi Guys –
Attached is the current draft of the SCOPA chapter 3 QA. OEB is making some revisions to some wording. In the meantime, please review the QA to ensure there is adequate distinction (in the section on powers of the OEB/MSP and MACD) between language on investigation vs. audit and the powers being inscribed in legislation. We need to be very precise in this response.

Please also add in the new question I requested of Tim regarding OPG.

DM has requested these come in by EOD.

HC

SCOPA Chapter 3 - FINAL -20180305-EPE.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

~~Additional Legislative Power~~Roles and legislative powers ~~for~~of OEB, MSP and MACD:

Commented [LA(1]: Edited for more precision – MSP is not necessarily being considered for additional legislative authority, nor was this the AG's recommendation

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants, and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

~~Additional Legislative Power~~ Roles and legislative powers ~~for~~ of OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide ~~MSP~~ OEB or MACD with additional powers?

Commented [LA(2]: The AG's recommendation pertains to the board's legislative powers (not msp's) in relation to amending market rules.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, , including:

- Reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence,

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- ~~and~~ Reviewing ~~t~~the ~~role and~~ authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure ~~potential~~any abuse of the market rules is adequately addressed. ~~in the market rule amendment process, particularly in instances of potential abuse of the market rules.~~

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB~~, MSP~~ and MACD is under review as highlighted i~~s~~n our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why is Ontario Power Generation, a government-controlled entity, under investigation for gaming the electricity market? What is the status of the investigation?

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Placeholder for input from IESO.

Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

CONFIDENTIAL

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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RE_ SCOPA Chapter 3 - additional Q&As (1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA Chapter 3 - additional Q&As
Date:	March 1, 2018 3:06:07 PM
Attachments:	SCOPA Chapter 3 - additional Q&As - EPE.docx

Hilary, SCOPA QAs attached.

From: Cox, Hilary (ENERGY)
Sent: February-26-18 2:43 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

Chapter 3 of the Market Rules:

Finding a breach

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:

6.2.4.1 determine that the *market participant* has not breached the *market rules*;

6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market rules***;

6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or

6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:

6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:

6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be necessary to comply with the *market rules*;

6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;

6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;

6.2.7.4 issue a non-compliance letter in accordance with section 6.6;
6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee
2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:
2.2B.1.1 the *facility* is not a *quick-start facility*;
2.2B.1.2 the *facility* is a *dispatchable generation facility*; and
2.2B.1.3 [Intentionally left blank – section deleted];
2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:
2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;
2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and
2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.
2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4, and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-payments made to the *market participant.***

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SCOPA Chapter 3 - additional Q&As - EPE_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The critique of the Industrial Conservation Initiative (ICI).

- We are confident in the ~~-~~Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of ~~which~~whom play vital roles in ensuring ~~our system operator to run an~~ an efficient~~ and~~, ~~-~~fair, and reliable electricity market for ratepayers across the province.

- According to IESO, ~~B~~both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to ~~eliminate~~ reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted, including Lake Superior Power and Cochrane Power. In addition, the second round of the large renewable procurement process (LRP II)

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and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 LTEP forecast. Future reductions in peak demand due to ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- ~~Once launched,~~ Market Renewal will replace the ~~need for~~ Real-Time Generation Cost Guarantee (RT-GCG) program ~~program with a more efficient and transparent mechanism~~~~payments~~ and ~~eliminate~~ Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms. ~~Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.~~

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

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- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
- The peak demand of a city roughly the size of Mississauga[1];
- Nearly 6 per cent of province-wide peak demand[2];
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by IESO in December 2016[4].

[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.
- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.
- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

[5] ~~http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs~~

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Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

.~~For example, a large industrial facility with a flat load profile does not require investments in electricity peaking resources and adds less to the cost of running our electricity system, when compared to the load of residential electricity consumers.~~

Lastly, ICI allows participants to reduce electricity costs by one third on average, ~~It also~~ help~~s~~ing to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce and Canadian Manufacturers and Exporters to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative?

The Ministry collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by IESO on a monthly basis. Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor the impact of ICI on an ongoing basis.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Commented [HS(1]: Put the actual cost shift in an "if pressed" section.

ICI is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. ~~In addition, s~~Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

In 2017, the total cost shift to Class B through the ICI program was about $1.2 billion.

MSP Recommendations

Q. Why didn't the Ministry respond to the recommendations ~~in~~ of the Market Surveillance Panel (MSP)?

The Ministry of Energy is committed to strong electricity market oversight in Ontario. The Ministry is briefed on all MSP reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

IESO has made numerous revisions to the market rules in response to MSP advice, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation~~ory~~ process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by ~~the~~ IESO or ~~the~~ MACD.

Market oversight in Ontario is undertaken by three independent bodies; ~~the~~ OEB, ~~the~~ OEB's MSP, and IESO's MACD. Each plays a vital role in ensuring an efficient, fair, and reliable electricity market for ratepayers across the province.

~~The~~ OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy ~~does~~ has

Commented [HS(2]: We should likely say that we reviewed the MSP recommendations and met with IESO to discuss. We took IESO advice because it's the system operator.

If we can say something about independent authority might be good.

Commented [LA(3]: from IESO status table response

Commented [HS(4]: See Jordan's email on Enforcement Authorities

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the general authority to direct ~~the~~ OEB to review the market rules or market participant licenses in order to address possible abuse of market power.

~~The~~ OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning. MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e. financial penalties) for failure to comply with the market rules. MACD staff also support ~~the~~ MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP, and MACD to ensure a fair, efficient, and reliable electricity market and remain committed to working collaboratively to ensure effective market oversight mechanisms.

Additional Legislative Power for MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

Commented [HS(5]: See the response table for content

We should also indicate that re the OEB, we'll be meeting with the OEB modernization panel to discuss further. Include a date reference after the Committee for the meeting

We welcome and appreciate the recommendations of the Auditor General and agree with the need for strong electricity market oversight in Ontario.

To that end, we are working closely with ~~the~~ IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and MACD and the role and authority of ~~the~~ OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

The potential need for additional legislative authority for MACD in order to ensure effective and efficient investigations is ~~being taken in to~~under review ~~consideration~~.

This year, Ontario is undertaking a review of ~~the~~ OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of ~~the~~ OEB progresses, and the Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system. ~~In other words, they're baked into the way our system operates to make sure we keep the lights on.~~

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;

- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and

- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, ~~T~~the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

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As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from IESO since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, ~~B~~both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

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We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As ~~we started the~~part of the phase out of coal~~ in 2009~~, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

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As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

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Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the ~~need for~~ Real-Time Generation Cost Guarantee (RT-GCG) ~~payments~~ program and ~~eliminate~~ Congestion Management Settlement Credits (CMSC). ~~Some of these costs are necessary to ensure reliability and will remain after Market Renewal is complete, similar to other electricity markets around the world.~~

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

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Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

~~We are considering the potential need for additional legislative power to assist our system operator in performing its critical responsibilities, including its investigations.~~

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, ~~T~~this program makes sure ~~our system operator can ensure on a daily basis~~ that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

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Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

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These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by

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covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final

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decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO

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also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

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Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

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Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a

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CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies~~that continues out-of-market payments~~ at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

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- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

~~What we want to accomplish through~~As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low ~~as we can reasonably get them~~. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. ~~We've~~ IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more

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fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators

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and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been ~~recently~~ added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, ~~T~~the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

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Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

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Q. What is the Market Assessment and Compliance Division (MACD)?

~~The~~ IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

~~The~~ MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. ~~The~~ IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

~~The~~ IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, ~~A~~attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

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Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

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But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American

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Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

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The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

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The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

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Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, ~~E~~eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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RE_ SCOPA Chapter 3 - additional Q&As .pdf

From: Lightbody, Ava (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: RE: SCOPA Chapter 3 - additional Q&As
Date: February 28, 2018 3:56:34 PM

Ok, duly noted. Hoping I'll be ok by tomorrow.

From: Cayley, Daniel (ENERGY)
Sent: February 28, 2018 1:45 PM
To: Lightbody, Ava (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Ava – note new deadline below – please endeavour to get me your edits by tomorrow at noon, if you are back in the office. If you need to take another day, I can handle it myself tomorrow.

Daniel

From: Cox, Hilary (ENERGY)
Sent: February 28, 2018 1:18 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Guys –
Steen would now like to see these QAs tomorrow instead of Friday.

HC

From: Cox, Hilary (ENERGY)
Sent: February 26, 2018 2:43 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3 - additional Q&As

Hi Tim and Daniel –
Additional requested QAs for chapter 3 in attached. Please prep responses (looks like enforcement authorities email below as well as final status update table on chapter 3 will be useful).

Let's aim to have these back by EOD Friday.

HC

From: Jordan Penic [mailto:jordan.penic@ieso.ca]
Sent: December 6, 2017 10:46 AM
To: Teliszewsky, Andrew (ENERGY) <Andrew.Teliszewsky@ontario.ca>; Schlaepfer, Martin (ENERGY)

<Martin.Schlaepfer@ontario.ca>
Cc: Peter Gregg <Peter.Gregg@ieso.ca>; Terry Young <terry.young@ieso.ca>
Subject: Enforcement Authorities

Andrew,

The IESO (through its Market Assessment and Compliance Division) is one of two independent agencies that enforce the conduct of market participants in Ontario's wholesale electricity market, the OEB and its Market Surveillance Panel being the other. This takes the form of an extensive set of market rules. Violation of a rule can result in a financial penalty (under Chapter 3 of the Market Rules – see appendix). The rules include prohibitions against providing incorrect information to the IESO. In the Goreway case, some of its cost submissions violated that rule, and the IESO's Market Assessment and Compliance Division imposed a record financial penalty of $10 million for violating that rule. This division has independent authority to make these findings within the IESO.

In addition, the IESO can conduct audits and recover payments that it determined were ineligible under the program (under Chapter 7 of the Market Rules – see appendix). In this case, it also found that cost submissions were not the type that qualify under the program. It recovered $100 million of those original payments.

In both cases, the IESO's and MACD's findings can be disputed. Goreway disputed these findings, arguing that many of its cost submissions were indeed eligible under the program's rules. The legal and accounting arguments in this case were complex and the parties agreed to a negotiated settlement rather than engaging in protracted litigation. The IESO recovered a responsible and significant amount as part of its enforcement action and audits. This IESO aggressively sought this outcome on behalf of ratepayers.

The second enforcement agency is the Market Surveillance Panel, a panel of the Ontario Energy Board. Their mandate under the Electricity Act is to investigate conduct and activities in the Ontario wholesale market for the purpose of recommending improvements to the market. This is a separate purpose to the IESO's enforcement mandate. Their investigation powers include the ability to seize records from company premises, which they did in their investigation of Goreway. Their powers do not allow for imposition of penalties. Their mandate is to write public reports, which they did in this case. They are also an independent agency, reporting to the Ontario Energy Board.

The Ministry of Energy does not have the authority to direct investigations or actions taken by the IESO or its Market Assessment and Compliance Division (MACD). At no point was the IESO ever influenced or directed on this issue by Ministry staff.

APPENDIX: MARKET RULES

IESO Market Rules Related to Investigation, Audit, Enforcement, and Penalties

<u>Chapter 3 of the Market Rules:</u>

Finding a breach

6.2.4 Following expiry of the time noted in section 6.2.3.4, and after consideration of any representations made by the *market participant* pursuant to that section, the *IESO* may:

6.2.4.1 determine that the *market participant* has not breached the *market rules*;

6.2.4.2 subject to section 6.2.5, **determine that the *market participant* is in breach of the *market rules***;

6.2.4.3 request that the *market participant* provide further information in relation to the alleged breach; or

6.2.4.4 conduct such further investigation into the matter as the *IESO* determines appropriate.

Imposing a penalty:

6.2.7 Subject to section 6.2.7A, where the *IESO* determines that a *market participant* has breached the *market rules*, the *IESO* may by order do any one or more of the following:

6.2.7.1 direct the *market participant* to do, within a specified period, such things as may be necessary to comply with the *market rules*;

6.2.7.2 direct the *market participant* to cease, within a specified period, the act, activity or practice constituting the breach;

6.2.7.3 impose additional or more stringent record-keeping or reporting requirements on the *market participant*;

6.2.7.4 issue a non-compliance letter in accordance with section 6.6;

6.2.7.5 **impose financial penalties** in accordance with section 6.6 indicating the time within which payment of the financial penalty must be made to the *IESO*, provided that no such penalties shall be imposed unless the *IESO* is satisfied that the breach could have been avoided by the exercise of due diligence by the *market participant* or that the *market participant* acted intentionally; or

GCG Audit powers: Chapter 7 of the Market Rules

2.2B Generation Facility Eligibility for the Real-Time Generation Cost Guarantee

2.2B.1 A *registered market participant* for a *generation facility* shall be eligible for the guarantee of certain elements of its costs, calculated in accordance with section 4.7B of Chapter 9, provided the following criteria are met:

2.2B.1.1 the *facility* is not a *quick-start facility*;

2.2B.1.2 the *facility* is a *dispatchable generation facility*; and

2.2B.1.3 [Intentionally left blank – section deleted];

2.2B.1.4 the *registered market participant* has submitted to the *IESO* the following data for the *generation facility*, in accordance with the applicable *market manual*, and the *IESO* accepts the data as reasonable:

2.2B.1.4A the *minimum run-time*, *minimum loading point*, and *minimum generation block run-time*;

2.2B.1.4B the incremental fuel costs and incremental operating and maintenance costs determined in accordance with sections 2.2B.4, 2.2B.5 and 2.2B.6; and

2.2B.1.4C any other data, as reasonably requested by the *IESO* that is relevant to determine eligible costs in accordance with section 2.2B.4, from the *registered market participant*, any *affiliate*, service provider or contractual counter-party.

2.2B.2 **The *IESO* may, at any time, audit the data submitted in accordance with section 2.2B.1.4,**

and the *registered market participant* shall provide the requested audit information in the time and manner specified by the *IESO*. If, as a result of such an audit, the *IESO* determines that the audit information provided does not support the submitted data, including, without limitation, that the *IESO* does not accept the data as reasonable, the *IESO* shall recover any resulting over-payments made to the *market participant.*

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RE_ SCOPA Chapter 3 intro remarks - all 20180305.pdf

From:	Cox, Hilary (ENERGY)
To:	Whytock, John (ENERGY); Nucciarone, Michael (ENERGY)
Cc:	Hendy, Adam (ENERGY)
Subject:	RE: SCOPA Chapter 3 intro remarks - all 20180305
Date:	March 5, 2018 4:41:00 PM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI_Final.docx

Here's the ESPD ADM approved (revised) ICI friendly.

HC

From: Whytock, John (ENERGY)
Sent: March 5, 2018 4:23 PM
To: Nucciarone, Michael (ENERGY)
Cc: Cox, Hilary (ENERGY); Hendy, Adam (ENERGY)
Subject: SCOPA Chapter 3 intro remarks - all 20180305

Remarks, with new IESO notes from earlier this afternoon. DM's version remains unchanged.

Any questions, please let me know.

Thanks
jw

SCOPA_QA_Friendly_Chapter 3_ICI_Final.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

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The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

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Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower their electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

DRAFT

History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. As I mentioned earlier, right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

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By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

DRAFT

RE_ SCOPA Mock Session .pdf

From:	David Barrett
To:	Schlaepfer, Martin (ENERGY)
Subject:	RE: SCOPA Mock Session
Date:	February 21, 2018 3:19:17 PM
Attachments:	4 - SCOPA Ch 2_QA_Friendly IESO - 20180220.docx

Martin, we've updated the friendly question response. No major change. The approach is for Peter to take the question and to start with the short pre-amble before handing off to Kim.

Thanks,
David

-----Original Appointment-----
From: Angus, Helen (TBS) [mailto:Helen.Angus@ontario.ca]
Sent: February 21, 2018 10:48 AM
To: Angus, Helen (TBS); David Barrett; Hughes, Karen (TBS); Veinot, Cindy (TBS); DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS); Kwamena, Boafoa (CAB); Donaldson, Mark (TBS); Nelson, Dane (TBS); Ue, Allison (TBS); Skoberne, Vivienne (TBS); Schlaepfer, Martin (ENERGY); McLean, David (MOF); Imbrogno, Serge (ENERGY); Thompson, Scott (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Schuurman, Tim (MOF); Orsini, Steve (CAB); Bromm, William (CAB); Pichelli, Jason (TBS); Gallant, Gabrielle (TBS); Ghiassi, Ali (MOF); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); Feenstra, Mike (ENERGY); Kate Longmoore
Cc: Hume, Steen (ENERGY); 'jeffrey.lyash@opg.com'; HOILETT Rosemarie -PRESIDENT; HARTWICK Ken -FINANCE; Peter Gregg; Dianne Hayes; Kim Marshall
Subject: FW: SCOPA Mock Session
When: February 21, 2018 4:00 PM-5:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: DM Boardroom, 5th Floor, Whitney Block, Suite 5320;

-----Original Appointment-----
From: Angus, Helen (TBS) [mailto:Helen.Angus@ontario.ca]
Sent: February 08, 2018 3:26 PM
To: Angus, Helen (TBS); Hughes, Karen (TBS); Veinot, Cindy (TBS); DiMuzio, Sofie (TBS); Sullivan, Bryant (TBS); Kwamena, Boafoa (CAB); Donaldson, Mark (TBS); Nelson, Dane (TBS); Ue, Allison (TBS); Skoberne, Vivienne (TBS); Schlaepfer, Martin (ENERGY); McLean, David (MOF); Imbrogno, Serge (ENERGY); Thompson, Scott (MOF); Mayman, Gadi (OFA); Kandeepan, Ken (OFA); Schuurman, Tim (MOF); Orsini, Steve (CAB); Bromm, William (CAB); Pichelli, Jason (TBS); Gallant, Gabrielle (TBS); Ghiassi, Ali (MOF); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); Feenstra, Mike (ENERGY)
Cc: Hume, Steen (ENERGY); 'jeffrey.lyash@opg.com'; HOILETT Rosemarie -PRESIDENT; HARTWICK Ken -FINANCE; Peter Gregg; Dianne Hayes; Kim Marshall
Subject: SCOPA Mock Session
When: February 21, 2018 4:00 PM-5:00 PM (UTC-05:00) Eastern Time (US & Canada).
Where: DM Boardroom, 5th Floor, Whitney Block, Suite 5320;

Sent Feb 09: MO staff invited
Sent Feb 08: Attendance has been limited to those who are attending SCOPA:

SoC
Steve Orsini

TBS
Helen Angus
Jason Pichelli
Christine Poopalapillai
Karen Hughes
Cindy Veinot
Mark Donaldson
MOF
Scott Thompson
Ali Ghiassi
Tim Schuurman
Gadi Mayman
Ken Kandeepan
ENE
Serge Imbrogno
Matt Whittington
Carys Baker
Mike Feenstra
Steen Hume
Jeffrey Lyash
Ken Hartwick
Peter Gregg
Kimberly Marshall

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4 - SCOPA Ch 2_QA_Friendly IESO - 20180220_1.pdf

1. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   Peter Gregg:

   Thanks for your question. My name is Peter Gregg, I'm the President and CEO of the Independent Electricity System Operator. Before we dive into the accounting policies we follow, it might be helpful for me to provide the committee with an overview of our role and responsibility in Ontario's electricity sector.

   The Independent Electricity System Operator is the public agency at the heart of Ontario's electricity system. We have a broad mandate that includes:

   - planning to meet Ontario's electricity needs in the near- and long-term;
   - reliable operation of the provincial electricity grid;
   - administering Ontario's wholesale electricity market;
   - fostering a culture of conservation; and in doing all of this
   - engaging with stakeholders and communities across the province.

   In our role as market administrator, we oversee all wholesale electricity market transactions. Through this market, money is constantly flowing to and from market participants, such as generators, like OPG and distributors, like Toronto Hydro.

   As a not-for-profit entity, our role is to efficiently manage and facilitate these market transactions.

   This may sound fairly straightforward, but to give you an idea of the value of transactions in our market, last year we settled about 17 billion dollars of financial transactions.

   Now I'd like to invite my colleague Kimberly Marshall to address the question you have related to the IESO's accounting policies. Ms. Marshall is the IESO's Chief Financial Officer and Vice President and Corporate Services.

DRAFT

Kim Marshall:
Thanks Peter.

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only auditing framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP auditing framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

DRAFT

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

DRAFT

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

DRAFT

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

DRAFT

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

DRAFT

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

DRAFT

RE_ SCOPA QAs - For MOF_ENER Review.pdf

From:	Hendy, Adam (ENERGY)
To:	Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc:	@ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject:	RE: SCOPA QAs - For MOF/ENER Review
Date:	February 15, 2018 12:09:30 PM
Attachments:	SCOPA QAs_FOR ENERGY.docx

Re-sending with the version containing my edits.

From: Hendy, Adam (ENERGY)
Sent: February-15-18 12:07 PM
To: Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: SCOPA QAs - For MOF/ENER Review
Importance: High

Hi Hilary and Matt,

TBS has asked to review their attached QAs for SCOPA. In the doc they have flagged a few areas for Energy input, which I have answered using approved messaging from our materials.

Hoping CRED and ESP can take a look at this ASAP and confirm if my additions are suitable.

Thanks for this, and sorry for the rush.
Adam

From: Tharani, Alisha (TBS)
Sent: February-15-18 11:39 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Cc: Miller, Amanda (TBS)
Subject: SCOPA QAs - For MOF/ENER Review

Hi Peter, Adam,

We have recently received feedback from our program area regarding questions that were included in our TBS QA document that may be better suited for Finance and Energy.

See attached.

Wanted to give you a head's up that though the way some of the questions may be worded, the response is better suited to come from your ministry/agencies. We have included the response that we had – but of course it will need to be vetted by your respective program areas.

Please let us know if you have any issues with how we've structured the handoff. If it's possible to get your feedback ASAP, it would be very much appreciated.

Thank you,

Alisha

SCOPA QAs_FOR ENERGY_1.pdf

SCOPA QAs – ENERGY

Flagged by TBS for Energy's Review:

1. **Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?**
   TO CONFIRM whether IESO or TBS should answer this question.

   Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

Commented [TA(1]: Should IESO or TBS answer this question?

2. **Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?**
   TO CONFIRM whether IESO or TBS should answer this question.

   The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

Commented [TA(2]: Should IESO or TBS answer this question?

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Ontario Fair Hydro Plan

AG Recommendation #3: OFHP

1. **The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?**

Commented [CV3]: I think you will want Energy to add content to this question re: how the Energy sector is financed (e.g. at market rates vs. the provincial borrowing rate).

Commented [TA(4]: Have left initial key messages for TBS. Will flag for Energy that this question would be passed to them.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

I will pass it over to my colleagues at the Ministry of Energy to provide further details.

2. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?**

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates.

The preliminary estimate from March 2017 was about $28 billion[1]. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[2]. With respect to the $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

~~The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.~~

~~Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).~~

~~Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.~~

For further questions about borrowing estimates, please contact the Ministry of Finance.

Ontario Fair Hydro Plan

AG Recommendation #9: Arm's Length Trusts

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

Commented [CV5]: Energy needs to update, as OPG Trust has placed its first tranche of debt in the market.

Commented [TA(6]: Have left initial key messages for TBS reference and will flag for Energy that this question will be passed to them to speak to the fact that OPG Trust has placed its first tranche of debt in the market.

Commented [CV7]: This question may be better split into two (a) the general use of a trust which TBS would answer and (b) why a trust for the low income affordability fund which Energy would answer.

Commented [TA(8]: Have included handover to Energy to speak to the Affordability Fund.

[1] Ministry of Energy, submission to Financial Accountability Officer
[2] Ministry of Energy
[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended. The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

RE_ SCOPA QAs_MOE_20180124 v1_SH(1).pdf

From:	Thouin, Alena (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Hendy, Adam (ENERGY)
Subject:	RE: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 29, 2018 9:26:00 AM

Thanks Hilary
We got it and will respond.

Alena Thouin
Deputy Director, Legal Services Branch
Ministries of Energy / Infrastructure / Economic Development & Growth /
Research, Innovation & Science / Accessibility
56 Wellesley St. W. 18th Floor, Toronto, ON M7A 2E7
Tel: 416-325-1834 **Email:** alena.thouin@ontario.ca

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Ontario

From: Cox, Hilary (ENERGY)
Sent: January 29, 2018 8:43 AM
To: Thouin, Alena (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: FW: SCOPA QAs_MOE_20180124 v1_SH

Hi Alena –
Attached are the QAs for Public Accounts Chapter 2 (addressing the AG report recommendations on accounting/OFHP accounting).

Can you please review the record disclosure section? Once it's been reviewed and approved, please return to Adam Hendy in Comms.

Comms is hoping to get this back today please.

HC

RE_ SCOPA QAs_MOE_20180124 v1_SH(2).pdf

From:	Ridd, Carl (ENERGY)
To:	Hendy, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY)
Cc:	@ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject:	RE: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 29, 2018 3:16:17 PM
Attachments:	SCOPA QAs_MOE_20180124 v 2 SNAP.DOCX

SNAP ADM approved input/edits to the QA's as requested.

Thanks,

Carl

From: Hendy, Adam (ENERGY)
Sent: January-29-18 2:04 PM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

Hi Again Everyone,

Just following up on these status of these. Still hoping we can get these fully approved and over to TBS today.

Thanks,
Adam

From: Hendy, Adam (ENERGY)
Sent: January-29-18 9:15 AM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH
Importance: High

Hi Folks,

Just a friendly reminder that we will need these back as soon as possible today. We need to have these DMO/MO approved and in TBS' hands today in preparation for their coming meeting with the SoC.

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: January-26-18 1:34 PM

To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

SCOPA QAs_MOE_20180124 v 2 SNAP.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

DRAFT

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

DRAFT

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

DRAFT

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

DRAFT

for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

DRAFT

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy
[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

DRAFT

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

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- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(4]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(5]: May be updated in tech briefing QA

DRAFT

Re-Design of Hydro Bills

Commented [HS(6]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods ~~between redesigned and previous bills~~ will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry ~~has~~continues to engage~~d~~ with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of LTEP 2017, the Ministry committed to continue to work with the OEB, industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

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Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with the Ontario Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan for consumers.

The new regulatory amendments are being~~were~~ discussed with industry stakeholders as part of the bill redesign working group. ~~Feedback from the working group was considered in the development of the regulation.~~

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

DRAFT

RE_ SCOPA QAs_MOE_20180124 v1_SH(3).pdf

From:	Kitchen, Matthew (ENERGY)
To:	Ridd, Carl (ENERGY); Hendy, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Yordi, Samer (ENERGY)
Cc:	@ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject:	RE: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 29, 2018 3:21:24 PM
Attachments:	2018-01-29 SCOPA QAs_MOE_20180124 v2_CEEB_v2.docx

CRED's ADM approved tracked edits – pp 13-15. Please also note comment CRED4 on p 15.

Matt

Matthew Kitchen
416-325-7065

From: Ridd, Carl (ENERGY)
Sent: January-29-18 3:16 PM
To: Hendy, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

SNAP ADM approved input/edits to the QA's as requested.

Thanks,

Carl

From: Hendy, Adam (ENERGY)
Sent: January-29-18 2:04 PM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

Hi Again Everyone,

Just following up on these status of these. Still hoping we can get these fully approved and over to TBS today.

Thanks,
Adam

From: Hendy, Adam (ENERGY)
Sent: January-29-18 9:15 AM
To: Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: @ENERGY-COMM-Issues_and_MediaRelations; Perkins, Michael (ENERGY); Whytock, John

(ENERGY); Lyon, Sam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH
Importance: High

Hi Folks,

Just a friendly reminder that we will need these back as soon as possible today. We need to have these DMO/MO approved and in TBS' hands today in preparation for their coming meeting with the SoC.

Thanks,
Adam

From: Cox, Hilary (ENERGY)
Sent: January-26-18 1:34 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

2018-01-29 SCOPA QAs_MOE_20180124 v2_CEEB_v2_2.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

DRAFT

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

DRAFT

for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

DRAFT

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

DRAFT

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

DRAFT

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy
[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

DRAFT

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately ~~70~~ 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

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- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

The Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

Commented [CRED4]: Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

Commented [HS(5]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(6]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(7]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

DRAFT

RE_ SCOPA QAs_MOE_20180124 v1_SH(4).pdf

From:	Thouin, Alena (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Hendy, Adam (ENERGY)
Subject:	RE: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 29, 2018 4:57:00 PM

Hi Hilary
Just updating. We are just looking into a few points in terms of language. Will get back as soon as we can.

Alena

From: Cox, Hilary (ENERGY)
Sent: January 29, 2018 8:43 AM
To: Thouin, Alena (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: FW: SCOPA QAs_MOE_20180124 v1_SH

Hi Alena –
Attached are the QAs for Public Accounts Chapter 2 (addressing the AG report recommendations on accounting/OFHP accounting).

Can you please review the record disclosure section? Once it's been reviewed and approved, please return to Adam Hendy in Comms.

Comms is hoping to get this back today please.

HC

RE_ SCOPA QAs_MOE_20180124 v1_SH(5).pdf

From: Hendy, Adam (ENERGY)
To: Thouin, Alena (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH
Date: January 29, 2018 4:58:44 PM

Thanks for the update Alena. As long as it gets to us tonight that is fine, as we will be consolidating edits first thing in the morning.

From: Thouin, Alena (ENERGY)
Sent: January-29-18 4:57 PM
To: Cox, Hilary (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: RE: SCOPA QAs_MOE_20180124 v1_SH

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HC

RE_ SCOPA QAs_MOE_20180124 v1_SH.pdf

From:	Hendy, Adam (ENERGY)
To:	Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc:	Whytock, John (ENERGY); Lyon, Sam (ENERGY); @ENERGY-COMM-Issues_and_MediaRelations
Subject:	RE: SCOPA QAs_MOE_20180124 v1_SH
Date:	January 26, 2018 1:47:49 PM
Attachments:	SCOPA QAs_MOE_20180124 v1_SH.DOCX

No problem. I will draft and send down today.

Adam

From: Cox, Hilary (ENERGY)
Sent: January-26-18 1:34 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY); Yordi, Samer (ENERGY); Ridd, Carl (ENERGY)
Cc: Hendy, Adam (ENERGY)
Subject: Fw: SCOPA QAs_MOE_20180124 v1_SH

Hi All -
Further to Adam's email yesterday on Public Accounts, attached is a revised package of QAS. CRED, we'll need you to beef up the section on A-Fund. SNAP, we'll need some Qs and As on bill redesign.

Adam, we need additional QA on OPG's role. Can you take a stab at blocking these out?

These are needed back to Comms for Monday please.

HC

SCOPA QAs_MOE_20180124 v1_SH_3.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why this change was made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

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The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must an independent regulator." This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

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IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(2]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.
- The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

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Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

Future generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(3]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(4]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

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No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(5]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(6]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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RE_ SCOPA _ Chapter 3 Products(1).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Ho, Larissa (ENERGY); Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA / Chapter 3 Products
Date:	February 9, 2018 9:09:00 AM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.docx

Hilary, our edits to the table are attached.

From: Cox, Hilary (ENERGY)
Sent: February-08-18 3:57 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA / Chapter 3 Products

Hi Guys –
Please fill out our section of the attached table and return by tomorrow morning. Was hoping we could look once I received IESO and OEB content, but I still don't have anything.

HC

Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead The Ministry is committed to strong electricity market oversight in Ontario, and is working closely with IESO and OEB in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules, particularly in instances where the potential for abuse exists. This review is expected to be completed this year.
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead The ICI program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	system for all ratepayers. The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly IESO reports and the quarterly Ontario Energy Report.
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead
AG Recommendation #7	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP	IESO Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.	recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal.	IESO Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO): • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO)*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need for additional legislative authority to assist MACD in performing its mandated duties.	ENERGY Lead The Ministry is committed to strong electricity market oversight in Ontario, and is working closely with IESO in reviewing the appropriate role and legislative authority of MACD regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
course of its investigations.		
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.	for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector	IESO Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.	with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	IESO Lead
AG Recommendation #17	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that: • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre.	IESO Lead

RE_ SCOPA _ Chapter 3 Products.pdf

From: Lightbody, Ava (ENERGY)
To: Christie, Tim (ENERGY)
Cc: Cayley, Daniel (ENERGY); Ho, Larissa (ENERGY)
Subject: RE: SCOPA / Chapter 3 Products
Date: February 8, 2018 6:11:50 PM
Attachments: Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.docx

Hi Tim,

Added in some content for our items in the Ch 3 SCOPA response table – I looked to the Ch. 2 table for guidance but wasn't sure exactly what this should look like so I'm happy to revise. Same doc attached.
\\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\Auditor General\20180208 ch 3 status table\Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.docx

I understand this is now due at 10am tomorrow.

Ava

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Thursday, February 8, 2018 3:57 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA / Chapter 3 Products

Hi Guys –
Please fill out our section of the attached table and return by tomorrow morning. Was hoping we could look once I received IESO and OEB content, but I still don't have anything.

HC

Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE_2.pdf

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Report of the Auditor General of Ontario
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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead The Ministry is confident in the ability of the OEB and IESO to run an efficient, reliable, and fair electricity market. Abuses within the system are unacceptable, and the government remains in support of the ongoing efforts of IESO to address the concerns raised by the AG. The Ministry is committed to strong electricity market oversight in Ontario, and intends to work closely with IESO and OEB in reviewing the *Electricity Act, 1998,* including the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules, particularly in instances where the potential for abuse exists.
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead The ICI program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective

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ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	system for all ratepayers. The program also helps large consumers to remain competitive through management of their electricity costs, which helps ensure they remain focused on creating Ontario jobs. The Ministry intends to continue to monitor the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead
AG Recommendation #7	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP	IESO Lead

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To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.	recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal.	IESO Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO): • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO)*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities.	IESO Lead

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Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need for additional legislative authority to assist MACD in performing its mandated duties.	ENERGY Lead The Ministry is confident in the ability of the OEB and IESO to run an efficient, reliable, and fair electricity market. Abuses within the system are unacceptable, and the government remains in support of the ongoing efforts of IESO to address the concerns raised by the AG. The Ministry is committed to strong electricity market oversight in Ontario, and intends to work closely with

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course of its investigations.		IESO to review the appropriate role and authority of MACD regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
change the Oversight Division's reporting structure.		
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the	IESO Lead

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Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.	IESO Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre.	

RE_ SCOPA chapter 3 QA revisions(1).pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: RE: SCOPA chapter 3 QA revisions
Date: March 5, 2018 5:00:25 PM
Attachments: SCOPA Chapter 3 - March 5 - OEB ESPD.docx

I've rejected Martine's edit on OEB enforcement of market rules. I think it is germane to the review process, and I've spoken with her about it. Edits are made on this consolidated version.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 4:27 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA chapter 3 QA revisions

Hi Guys –
Please review the OEB edits on page 3 and let me know if you're ok with these.

HC

From: Martine Band [mailto:Martine.Band@oeb.ca]
Sent: March 5, 2018 4:20 PM
To: Cox, Hilary (ENERGY); Neil Brodie
Cc: Mary Anne Aldred
Subject: RE: SCOPA chapter 3 QA revisions

Hi Hilary,

The attached has some edits in relation to 3 items (two of which are repeated in more than one place), all of which are offered for factual accuracy. The one that is likely not intuitive in that regard relates to references to a review of OEB authority regarding enforcement of the market rules. I don't really know the driver behind the inclusion of those references, and am not looking to pre-empt what the Ministry may want to examine in that regard. But I did feel that I should note that the OEB does have authority in relation to market participant non-compliance with the market rules, in case that affects anything on your end.

Happy to further explain this or the other edits if helpful.

Martine

Martine M. N. Band
Associate General Counsel
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Direct Line: 416.440.8117
E-mail: martine.band@oeb.ca

Please note my email address has changed to Martine.Band@oeb.ca. Please update your address book accordingly.

From: Cox, Hilary (ENERGY) [mailto:Hilary.Cox@ontario.ca]
Sent: Monday, March 5, 2018 2:56 PM
To: Martine Band <Martine.Band@oeb.ca>; Neil Brodie <Neil.Brodie@oeb.ca>
Cc: Mary Anne Aldred <MaryAnne.Aldred@oeb.ca>
Subject: SCOPA chapter 3 QA revisions

Hi Martine –
I understand you had made some edits to the QA package for chapter 3. Grateful if you can send those along at your earliest convenience.

Many thanks,

Hilary

This electronic transmission, including any accompanying attachments, may contain information that is confidential, privileged and/or exempt from disclosure under applicable law, and is intended only for the recipient(s) named above. Any distribution, review, dissemination or copying of the contents of this communication by anyone other than the intended recipient(s) is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail and permanently delete the copy you have received.

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SCOPA Chapter 3 - March 5 - OEB ESPD_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

~~Additional Legislative Power~~Roles and legislative powers ~~for~~of OEB, MSP and MACD:

Commented [LA(1]: Edited for more precision – MSP is not necessarily being considered for additional legislative authority, nor was this the AG's recommendation

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants, and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

~~Additional Legislative Power~~ Roles and legislative powers ~~for~~ of OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide ~~MSP~~ OEB or MACD with additional powers?

Commented [LA(2]: The AG's recommendation pertains to the board's legislative powers (not msp's) in relation to amending market rules.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, , including:

- Reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence,

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- ~~and~~ Reviewing ~~t~~the ~~role and~~ authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure ~~potential~~any abuse of the market rules is adequately addressed. ~~in the market rule amendment process, particularly in instances of potential abuse of the market rules.~~

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB~~, MSP~~ and MACD is under review as highlighted i~~s~~n our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why is Ontario Power Generation, a government-controlled entity, under investigation for gaming the electricity market? What is the status of the investigation?

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Placeholder for input from IESO.

Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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RE_ SCOPA chapter 3 QA revisions.pdf

From:	Martine Band
To:	Cox, Hilary (ENERGY); Neil Brodie
Cc:	Mary Anne Aldred
Subject:	RE: SCOPA chapter 3 QA revisions
Date:	March 5, 2018 4:19:42 PM
Attachments:	MB_SCOPA Chapter 3 - FINAL.docx

Hi Hilary,

The attached has some edits in relation to 3 items (two of which are repeated in more than one place), all of which are offered for factual accuracy. The one that is likely not intuitive in that regard relates to references to a review of OEB authority regarding enforcement of the market rules. I don't really know the driver behind the inclusion of those references, and am not looking to pre-empt what the Ministry may want to examine in that regard. But I did feel that I should note that the OEB does have authority in relation to market participant non-compliance with the market rules, in case that affects anything on your end.

Happy to further explain this or the other edits if helpful.

Martine

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Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, Ontario M4P 1E4

Direct Line: 416.440.8117
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Please note my email address has changed to Martine.Band@oeb.ca. Please update your address book accordingly.

From: Cox, Hilary (ENERGY) [mailto:Hilary.Cox@ontario.ca]
Sent: Monday, March 5, 2018 2:56 PM
To: Martine Band <Martine.Band@oeb.ca>; Neil Brodie <Neil.Brodie@oeb.ca>
Cc: Mary Anne Aldred <MaryAnne.Aldred@oeb.ca>
Subject: SCOPA chapter 3 QA revisions

Hi Martine –
I understand you had made some edits to the QA package for chapter 3. Grateful if you can send those along at your earliest convenience.

Many thanks,

Hilary

This electronic transmission, including any accompanying attachments, may contain information that is confidential, privileged and/or exempt from disclosure under applicable law, and is intended only for the recipient(s) named above. Any distribution, review, dissemination or copying of the contents of this communication by anyone other than the intended recipient(s) is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return e-mail and permanently delete the copy you have received.

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MB_SCOPA Chapter 3 - FINAL_1.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC ~~these~~ credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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RE_ SCOPA materials.pdf

From:	Kitchen, Matthew (ENERGY)
To:	Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc:	Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject:	RE: SCOPA materials
Date:	February 26, 2018 10:43:06 AM
Attachments:	2018-02-23 TOP ISSUES AND ESTIMATES AFT_SCOPA_Clean KSH.DOCX 2018-02-22 NUMBERS AT A GLANCE AFT_SCOPA clean KSH.DOCX a. 2018-02-22 QA AFT_SCOPA_Clean KSH.DOCX

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)

Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM

To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs

QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

2018-02-23 TOP ISSUES AND ESTIMATES AFT_SCOPA_2.pdf

SCOPA 2018 AFT NOTE

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of social service organizations, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately more than 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.
- The table below outlines the Board of Trustees for the Affordability Fund Trust

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.
- XXX

Commented [KM(1]: Insert bullet(s) on now Trust was established and appointed (e.g. intern group with HO, etc.)

How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
    - Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
    - Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.
- Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- Priority is expected to be given to homes primarily heated by electricity.

- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), at no or minimal cost, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $260 to over $6,000 per customer (including air source heat pumps).

- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and

the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

~~Table 1: Board of Trustees for the Affordability Fund Trust~~

~~Organization~~	~~Representative~~
~~United Way Ottawa~~	~~Michael Allen (President and CEO)~~
~~Neighbour to Neighbour Centre~~	~~Denise Arkell (Executive Director)~~
~~Thunder Bay Hydro~~	~~Tim Wilson (VP Customer and Information Services)~~
~~Hydro One~~	~~Warren Lister (VP Customer Service)~~
~~Alectra~~	~~Raegan Bond (VP Conservation and Demand Management)~~
~~Ministry of Energy~~	~~Kaili Sermat-Harding (Assistant Deputy Minister)~~

- Hydro One has played an important role in facilitating the establishment of the Trust, and ~~will continue~~is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

Commented [KM(2]: Check document to ensure tense is correct/consistent.

- The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY ~~had been~~was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.

- ENERGY's first report back to TB/MBC through the PRRT process was in October 201~~8~~7 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.

    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.

- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

2018-02-22 NUMBERS AT A GLANCE AFT_SCOPA clea.pdf

NUMBERS AT A GLANCE – AFT

Commented [KM(1]: KSH believes ther are soem numbers from last week's deck that were not included here. Please double check.

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, over 4,280 applications had been received. Eligible applicants are expected to start receiving benefits in the coming months, which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on ~~s~~investment of $98,969,457.
- As of February 20, 2018, 60 (of about 70) electricity distributors have indicated an interest in delivering the Affordability Fund program, and 36% of the $100M budget has been allocated.

APPENDIX – INTERNAL DATA

NTD: The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 23-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)	1,186
Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	286
Sent to LDCs or Ready to be Sent to LDCs	2,810

Metrics As of Feb 20, 2018	**Amount**
Number of Participating LDCs	60
Number of LDC Implementation Agreements Signed	24
Percent of $100M Allocated	36%

Commented [KM(2]: moved non-public data to separate section/the back

Commented [KM(3]: include sum of applicatoins to date (I konw it is on the first page)

Commented [KM(4]: KSH was unsure of what some of the metrics meant - elaborate if possible.

Commented [KM(5]: Include a list of LDCs who have signed

Commented [KM(6]: show breakdown of the 36%

AFT LDC BUDGET ALLOCATION

LDC	Allocation
Chapleau PUC	$ 246,280
Entegrus Inc.	$ 633,680
Erie Thames Power	$ 465,000
Espanola Regional Hydro	$ 599,040
Greater Sudbury Power	$ 2,429,570
Hearst Power	$ 252,520
Kitchener-Wilmot Hydro	$ 1,240,900
Midland PUC	$ 547,260
Newmarket-Tay Power Distribution	$ 1,503,860
North Bay Hydro	$ 1,220,610
Northern Ontario Wires	$ 994,740
PUC Distribution	$ 2,473,990
Renfrew Hydro	$ 550,500
Welland Hydro	$ 801,936
Westario Power Inc.	$ 740,500

AFT 2018 BUDGET

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

a. 2018-02-22 QA AFT_SCOPA_Clean KSH.pdf

QAs for SCOPA

AFFORDABILITY FUND

1. Tough Q&As_____p.1
2. Direction and Administrative Considerations_____p.3
3. Program Considerations_____p.7
4. Trust Considerations_____p.12
5. Linkage Questions_____p.14

1. Tough Q&As

Why is the affordability fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the programs?

Commented [KM(1]: Answer does not address this qustion. Please address 'why not have IESO deliver' - take from deleted q below?

- The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.
- With approximately ~~70~~ 65 electricity distributors in the province, the Province entering into agreements with each distributor was not feasible. The Trust structure establishes an independent entity with expertise from social service agencies and the electricity distributor sector.
- The Board of Trustees for the Trust includes representation from community service organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner to ensure beneficiaries receive~~.~~…

Commented [KM(2]: KSH questioned focusing on effective oversight/effieicncy as IESO could also do this. Please revise (note the tracked text is from KSH).

Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

- In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:
    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.

- LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides low-income support program.

- In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

- The Save on Energy Home Assistance Program (HAP), delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (derived from Statistics Canada).

- Not all customers who are in need are eligible for HAP.

- On March 2, 2017, the government announced the establishment of an Affordability Fund as part of its Fair Hydro Plan.

- The Affordability Fund ~~will provide~~is providing energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

Commented [KM(3]: Please double check to snure tense is correct and consistent throughout.

- The Affordability Fund will provide similar measures to the HAP program, such as:
  - Energy-saving light bulbs (LEDs)
  - Power bars
  - Energy-efficient window air conditioners
  - Energy-efficient refrigerators
  - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

- The level of energy burden calculated for the participating household will determine the level of home upgrades and total cost of measures it will be able to receive from the Affordability Fund.
  - Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
  - Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
  - Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: rage of $500-$15,000 per customer is confidential and has not been made public)***

If pressed:

- The AFT estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households. ***(NTD: number of households has not been made public)***

- The Affordability Fund is being created to provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support. Not all customers who are in need are eligible for HAP.

- A Trust based centralized delivery model with electricity distributors and community services organizations as Trustees gives direct control and responsibility to those agents who can readily determine which electricity customers are most in need, for example those who are facing disconnection or do not qualify for the low-income electricity conservation program.

- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. DIRECTION AND ADMINISTRATIVE CONSIDERATIONS

Q. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

The Affordability Fund will be established through an independent Trust that will be provided with an upfront amount of $100 million. The Trust will administer the Affordability Fund and disburse funding to electricity distributors. The principles outlined in the Trust Deed will ensure compliance with the Transfer Payment Accountability Directive and the value for money principle.

Given the scope of the Fund, a firm upfront financial commitment was required before implementation:

- An upfront commitment enables the Fund Administrator to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow.

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas.

- The Trust will help address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help lower customer energy bills and put them on a more sustainable path.

Q. Explain how payments to the Trust and electricity distributors are made.

The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

- The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
- On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)

Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Commented [KM(4]: Answer is not relevant. Please revise to address the question.

Q. What are the anticipated overhead requirements for the Affordability Fund?

The Trust will be responsible for establishing consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province. It is expected that administrative/overhead/staffing expenses of the Trust will be in accordance with the principles outlined in the Province's Cash Management Directive and Transfer Payment Accountability Directive.

Q. Why is there a need to spend in this particular area? On what basis did the Ministry determine the need for such a Fund?

To help electricity consumers across the province achieve cost savings, the government has proposed a Fair Hydro Plan, which includes establishing a Fund to provide support for energy efficiency improvements to help customers reduce future electricity bills and avoid future disconnections.

Commented [KM(5]: Update tense

The existing Home Assistance Program delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of

their homes. HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes, through the installation of LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars. Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

There are, however, many consumers who do not meet the mandated definition of low-income consumers under HAP. LDCs reported to the OEB that, at the end of 2015, there were over 560,000 electricity accounts in arrears, of which only 19,900 accounts (~3.6%) were eligible to receive the LEAP Emergency Financial Assistance.[1] LDCs have also reported to the OEB that in 2015, about 60,000 customers had their electricity service disconnected.

~~Q. Why establish a Trust?~~

~~The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.~~

~~With approximately 70 electricity distributors in the province, entering into TPAs with each distributor is not feasible. The Trust structure establishes an independent entity with expertise from Hydro One, social service agencies and the electricity distributor sector.~~

~~It is expected that the Board of Trustees will represent a geographical cross section of the Province and thereby avoid any perception of favouritism. A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.~~

Q. Were~~Are~~ there other potential program recipients that could have delivered the program?

LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs. LDCs are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

[1] Source: Ontario Energy Board. Reported by LDCs to the OEB, but unverified.
LEAP EFA income thresholds for eligibility are similar to those in HAP. Those receiving LEAP EFA automatically income qualify for HAP.

This structure also leverages the expertise and existing resources of Hydro One, as well as of potentially others in the LDC sector, in conservation program delivery and customer marketing/outreach.

Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered suboptimal.

The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise or understanding of conservation and demand management programs, has no direct channel or ties to LDCs, and has limited understanding of electricity service delivery. In addition, the Affordability Fund would not be a public-facing program, but rather would rely on LDCs to identify their respective eligible electricity customers and deliver the funding in accordance with the program. An organization like the United Way lacks the capacity to deliver a Fund program, and it would take time to build that capacity.

~~Q. Why can't the OEB and IESO administer the Affordability Fund?~~

~~Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust would operate in a streamlined fashion flowing funds directly to electricity distributors.~~

~~The Trustees of the Trust are responsible for reviewing the applications to the Fund and authorizing the flow of funds. Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in need of assistance.~~

~~Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund. Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.~~

3. PROGRAM CONSIDERATIONS

Q. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, toprovide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.

The Affordability Fund is guided by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs to ensure consistent access for LDCs across the province.

Q. What will customers receive? What are eligible energy efficiency measures under the Fund?

Eligible electricity customers could receive measures ranging on average from $500 to $15,000 per customer, at no or minimal cost. ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***

Measures are expected to be similar to those available in the Home Assistance Program, which include:

- energy-saving light bulbs (LEDs);
- power bars;
- energy efficient window ACs;
- refrigerators, freezers, dehumidifiers;
- low-flow showerheads, hot water blankets;
- pipe wrap and faucet aerators (in homes with electric water heating); and
- programmable thermostats, weather stripping, insulation (in homes with electric heating).

Cold climate air source heat pumps, which can cost from $7,000 to $13,000, would also be an eligible measure under the Fund for homes that are electrically-heated.

Commented [KM(6]: Update

Q. What is the eligibility criteria for the program?

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs and representatives of social service organizations, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

The level of support available to eligible households under the Affordability Fund program is based on the energy affordability burden. This is the ratio of the utility 'asked to pay amount' divided by the 'net household income'. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

Commented [KM(7]: Add a separate QA directly below on What is this EA burden and how it works.

Q. Would tenants be eligible?

Tenants who pay their electricity bills could be among the eligible customers identified by LDCs as needing help. The Affordability Fund is~~would~~ targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills. Eligible customers will be identified by LDCs and could include those in frequent arrears or facing disconnection.

Q. How soon will eligible customers be able to start benefiting from the Fund?

The Trust operates in a streamlined fashion flowing funds directly to electricity distributors. Interested electricity distributors apply to the Affordability Fund and are ~~will be~~ responsible to deliver the program to those customers they have identified as eligible. The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program. Eligible customers have already begun receiving energy efficiency measures. .

Q. How much can a customer who takes advantage of the Fund expect to save?

Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home. Electricity saving measures can include for

example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year. In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

Q. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid. We are open to feedback at this time on access by customers served by IPAs and remote First Nation communities.

Commented [KM(8]: This should be the Trust and not 'we' (the governemnt)

Q. How much funding will each electricity distributor or LDC get?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province.

The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to about 65~~70~~ electricity distributors.

In summer 2017, AFT engaged with electricity distributors, IESO and OEB, and social service sector to design funding criteria and processes, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

Q. Will the program be delivered province-wide?

Yes, the program will be delivered province-wide.

Commented [KM(9]: add text on how it will be deliverd province-wide (if possible)

~~The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province.~~

~~The Affordability Fund Trust is accessible to electricity distributors to provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs (HAP), and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.~~

Q. How will the Affordability Fund program be marketed?

On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. This announcement built a narrative that leverages announcements on the Fair Hydro Plan and its elements, helping to lower electricity costs across the province. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

The Affordability Fund Trust has developed a communication strategy, including marketing and outreach activities. It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers.. Eligible customers will be identified by electricity distributors.

Q. How will you evaluate the success of the Affordability Fund?

Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements, including:

- Amounts disbursed by the AFT to Electricity Distributors, and in aggregate.
- Total Affordability Fund investment income earned and accrued to date.
- Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor.
- Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT.
- Electricity Distributor and customer feedback and lessons learned.

~~**Q. Identify the risks that would prevent the program from achieving its objectives.**~~

~~Not all customers in need will actively seek help. For example, there are those electricity customers who are not low-income but who struggle to pay their electricity bills and opt to do so in place of other necessities. These customers may not yet be on the radar of an LDC's collections department, for example.~~

~~How quickly and where funds will be distributed depends on the processes established by the Trust and the time that it takes individual LDCs to prepare for delivery of the Affordability Fund program.~~

~~LDCs note that some customers in arrears may be "gaming the system" and not truly in need. LDCs know their customers best and are best positioned to identify customers in need, based on billing history and past customer relations.~~

~~There is some complexity in the market and potential customer confusion due to the availability of other energy support and energy conservation programs (Home Assistance Program, Ontario Electricity Support Program, Low-Income Energy Assistance – Emergency Financial Assistance, Enbridge and Union Gas Home Winterproofing and Home Weatherization programs). Social service agencies play an important role for low-income customers, in helping navigate this landscape of these and other social assistance programs.~~

~~Additionally, the AFT and IESO are working on aligning the Affordability Fund and Home Assistance Program. Beginning January 1, 2018, the HAP undergoing enhancements. As directed by the Ministry, the IESO is centrally delivering HAP to further improve the impact and availability of conservation programs that help low-income customers.~~

Q. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

4. TRUST CONSIDERATIONS

Q. How much control does the Province or Hydro One have over the Trust?

The Affordability Fund Trust has been established as a non-controlled independent Trust, to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements. The Trust is undertaking its duties on the basis of principles and guidance in the TPA between the ministry and the Trust, and the Declaration of Trust, established by the Province. Trustees have discretion on how they implement the program.

The Trust structure leverages the expertise of the electricity and social assistance sectors. The composition of the Board of Trustees represents a geographical cross section of the Province and has been selected based on experience in managing funds and experience in low income program delivery and oversight.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The Ministry of Energy is a non-voting Trustee, and sits on the Board of Trustees as an observer.

~~The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor.~~ The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Q. What accountability and reporting structures ~~will be~~are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

The ~~current~~ TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency

Commented [KM(10]: incomplete sentence

upgrades to eligible customers. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

5. LINKAGE QUESTIONS

Q. How will the spending augment existing rate mitigation and conservation initiatives?

Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

To help electricity consumers across the province achieve cost savings, the government is implementing a Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

The Affordability Fund will target those customers who do not qualify for low-income conservation programs (e.g. HAP) and who cannot undertake energy efficiency upgrades without support. It is expected that many LDCs will leverage past or existing contracts with organizations delivering the HAP).

Q. How will the programs compare with the existing Home Assistance Program?

The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund will provide similar measures to the HAP program, such as:

- Energy-saving light bulbs (LEDs)
- Power bars
- Energy-efficient window air conditioners

- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from the Global Adjustment/electricity rates.

Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure. Eligibility for the Affordability Fund is based on the energy affordability burden. This is the ratio of the utility 'asked to pay amount' divided by the 'net household income'. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

It is expected that LDCs will leverage past or existing contracts with organizations delivering the HAP.

Q. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

Q. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

Commented [KM(11]: is this tense correct?

A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

Q. What happens to unspent money?

It is expected that the funds through the Fund will be deployed within a year or two of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustee shall identify the Residual Beneficiary, or if more than one the Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

Q. Does the Ministry have the ability to claw-back funds?

The TPA includes claw-back provisions to recover funds were not used for the intended purposes.

RE_ SCOPA.pdf

From:	Nelson, Dane (TBS)
To:	Schlaepfer, Martin (ENERGY); Ue, Allison (TBS); McLean, David (MOF)
Cc:	Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY); Clarke-Darshanand, Jamille (MOF)
Subject:	RE: SCOPA
Date:	February 13, 2018 5:47:06 PM
Attachments:	Response to Clerk_SCOPA_2018-Feb-13 - final.doc Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.docx

Hi everyone,

We made minor revisions to the memo (just sharing for your awareness).

Regards,

Dane Nelson, Senior Policy Advisor
Treasury Board Secretariat | Deputy Minister's Office
Phone: 416-325-3617 | Mobile: 416-409-3437 | E-mail: Dane.Nelson@ontario.ca

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From: Schlaepfer, Martin (ENERGY)
Sent: February-13-18 3:04 PM
To: Ue, Allison (TBS); McLean, David (MOF)
Cc: Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY); Clarke-Darshanand, Jamille (MOF); Nelson, Dane (TBS)
Subject: Re: SCOPA

Looks good to us.

Martin

From: Ue, Allison (TBS)
Sent: Tuesday, February 13, 2018 2:09 PM
To: Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc: Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY); Clarke-Darshanand, Jamille (MOF); Nelson, Dane (TBS)
Subject: SCOPA

Hi there

Attached is the cover letter and revised status table (w/tracked changes from the version that was presented on Friday last week). OPCD has been working with your folks on the table. Please take another look, and let us know if you have any edits.

We are hoping to provide this to DM Angus today for final review before we send it tomorrow.

Thanks
Allison

Allison Ue
Manager, Deputy Minister's Office
Treasury Board Secretariat

Office: 416-326-6286 | Cell: 437-997-1200
allison.ue@ontario.ca

Response to Clerk_SCOPA_2018-Feb-13 - final.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
Conseil de gestion du gouvernement

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99, rue Wellesley Ouest
Toronto (Ontario) M7A 1A1
Tél. : 416 325-1607
Téléc. : 416 325-1612

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

…/2

Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@onatrio.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

Status Table_Ch 2 of AG AR_SCOPA_20180213 - f_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

RE_ SCOPA_QA_Friendly_Chapter 3_ICI.pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Lightbody, Ava (ENERGY)
Subject:	RE: SCOPA_QA_Friendly_Chapter 3_ICI
Date:	March 5, 2018 12:54:31 PM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI.docx

Hilary, minor edits attached.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 11:43 AM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: SCOPA_QA_Friendly_Chapter 3_ICI

Hi Guys –
Please fact-check review the attached (revised) Chapter 3 friendly on ICI. I'd like to have this back by 1 pm please.

HC

SCOPA_QA_Friendly_Chapter 3_ICI_2.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

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The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

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Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower their electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

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History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. As I mentioned earlier, ~~R~~right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

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By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

DRAFT

RE_ SCOPA_QA_Friendly_ENERGY (2) .pdf

From: Lightbody, Ava (ENERGY)
To: Cayley, Daniel (ENERGY)
Subject: RE: SCOPA_QA_Friendly_ENERGY (2) (2)
Date: January 26, 2018 4:21:50 PM

Hi Daniel,

Revisions in response to Steen: \\Etcptovspifs003\pd\EnergyPolicy\Economics\Files\OFHP\20180125 SCOPA OFHP related requests\friendlys\SCOPA_QA_Friendly_ENERGY-ADM.docx

Ava

From: Cayley, Daniel (ENERGY)
Sent: January-26-18 3:21 PM
To: Lightbody, Ava (ENERGY)
Subject: FW: SCOPA_QA_Friendly_ENERGY (2) (2)

Please take a look.

Thanks,

Daniel

From: Cox, Hilary (ENERGY)
Sent: January 26, 2018 2:50 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: SCOPA_QA_Friendly_ENERGY (2) (2)

Steen's comments on the chapter 2 friendly.

HC

RE_ Standing Committee on Public Accounts - Cha...(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	DYKXHOORN Sandra -STAKEREL
Cc:	GRUETZNER Ted -STAKEREL; Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	RE: Standing Committee on Public Accounts - Chapter 2
Date:	February 13, 2018 6:21:00 PM
Attachments:	1. SCOPA QAs_MOE_20180208 - Approved.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx Status Table_Ch 2 of AG AR_SCOPA_20180213 Final to Clerk.docx

Hi Sandra,

Attached are our current materials for Chapter 2.

I think the plan is for the Deputies to take the initial questions, but then call upon experts as necessary.

Yes, we are also working with the IESO and OEB on chapter 3 materials.

Martin

From: DYKXHOORN Sandra -STAKEREL [mailto:sandra.dykxhoorn@opg.com]
Sent: February 13, 2018 3:16 PM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Cc: GRUETZNER Ted -STAKEREL <ted.gruetzner@opg.com>
Subject: Standing Committee on Public Accounts - Chapter 2

Hi Martin,

Can you advise if there are any materials that will be shared with OPG in advance of the dry run next Wednesday?

Also, it would be helpful to know if you think OPG will be called on or if it is likely that the Cabinet Secretary or DM Ministry of Energy will handle most questions or will it run more similarly to the Estimates Committee Appearance in the Fall.

Are you prepping any material on Chapter 3 (IESO audit), as well?

Thanks,
S.

Sandra Dykxhoorn | Director, Provincial Relations | Ontario Power Generation
700 University Avenue, Toronto ON M5G 1X6 | p: (416) 592-2887 | c: (416) 571-4366 |
sandra.dykxhoorn@opg.com

1. SCOPA QAs_MOE_20180208 - Approved_3.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 2018_1.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Status Table_Ch 2 of AG AR_SCOPA_20180213 Fin_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards	Continue to monitor progress.

	its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

RE_ Standing Committee on Public Accounts - Cha....pdf

From:	Berry, James (ENERGY)
To:	Nucciarone, Michael (ENERGY); Whittington, Matt (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY); Whytock, John (ENERGY); Campbell, David (ENERGY); Perkins, Michael (ENERGY)
Subject:	RE: Standing Committee on Public Accounts - Chapter 2
Date:	February 12, 2018 1:57:49 PM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180208.docx 1. SCOPA QAs_MOE_20180208 - Approved.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx

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On page 14 of the Qs &As, I think the response to the Q below should include OPG's messaging that "strong appetite resulted in the lowest cost of financing in the Canadian energy sector". Can that be added? Including our LA/Issues Manager on my response as FYI.

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

From: Nucciarone, Michael (ENERGY)
Sent: February 12, 2018 10:38 AM
To: Whittington, Matt (ENERGY) <Matt.Whittington@ontario.ca>; Berry, James (ENERGY) <James.Berry5@ontario.ca>
Cc: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>; Campbell, David (ENERGY) <David.Campbell2@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Subject: Standing Committee on Public Accounts - Chapter 2

Hi Matt, James,

Last Friday a meeting was held with TBS, MOF, ENERGY and the SoC to discuss the Standing Committee on Public Accounts – Chapter 2 appearance on February 28th.

Sharing for your reference the materials the Ministry developed including Q&As, key messages, and status updates to the recommendations coming out of the Auditor General's Annual Report.

Happy to discuss if you have any questions.
Thanks,
Michael

Status Table_Ch 2 of AG AR_SCOPA_20180208.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

DRAFT

RE_ Standing Committee on Public Accounts(1).pdf

From:	Lyon, Sam (ENERGY)
To:	Armstrong, Hillary (ENERGY)
Cc:	Nutter, George (ENERGY); Nucciarone, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	January 12, 2018 11:59:57 AM

Gotcha sounds good. Welcome to the fun and games Michael!

Sent with BlackBerry Work
(www.blackberry.com)

From: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Date: Friday, Jan 12, 2018, 11:59 AM
To: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>
Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>, Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>, Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Thanks for the heads up Sam. Michael is going to be leading this one in the DMO, so I'm including him as well.

Hillary

Sent with BlackBerry Work
(www.blackberry.com)

From: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>
Date: Friday, Jan 12, 2018, 11:55 AM
To: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi Hillary,

FYI, we just had a call with TBS and MOF Comms on the upcoming public accounts meeting. They mentioned that there was a DMs briefing next Friday on this, and gave us a heads up that at the meeting there would be a desire to go over the various "swim-lanes" for the ministries/agencies, and to get an idea of the various issues that ministries might expect to emerge from our individual perspectives.

I should be getting an agenda through from TBS shortly – will send that through when I have it. They'll also be sending through a speech (likely later on) that DM Angus would make at the beginning of the appearance, which would naturally include material that ENERGY would need to review.

Cheers,

S.

From: Armstrong, Hillary (ENERGY)
Sent: January 5, 2018 6:46 PM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Nucciarone, Michael (ENERGY); Lyon, Sam (ENERGY); Berg, Denna (ENERGY)
Subject: Standing Committee on Public Accounts

Hi Hilary,

I don't think I actually sent this your way before. We have been asked to attend the Standing Committee on Public Accounts for two chapters of the AG's 2017 Annual Report:

- Chapter 2 – Public Accounts of the Province (February 28)
- Chapter 3 – Market Oversight and Cybersecurity (March 7)

You will see holds in the calendar for both of these dates. Next week I will regroup with the Deputy on next steps for this and we will be in touch.

In terms of attendees, for Chapter 2, the Deputy would like Steen to attend (both OPG and IESO will also be attending. Does Steen also want Tim to attend? If you can confirm with him on Monday that would be great, as TBS is coordinating and is interested in our names. For Chapter 3, both the OEB and IESO will be attending, and the Deputy will want Steen there as well. Let me know if Steen wants a director at this one as well, and I can confirm with the Deputy.

Thanks,
Hillary

RE_ Standing Committee on Public Accounts(2).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Lyon, Sam (ENERGY); Armstrong, Hillary (ENERGY)
Cc:	Nutter, George (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	January 12, 2018 12:09:04 PM

Thanks Sam, if the proposed agenda is coming this afternoon, I can hold off and include the agenda when giving the Deputy a heads up.

Michael

Sent with BlackBerry Work
(www.blackberry.com)

From: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>
Date: Friday, Jan 12, 2018, 11:59 AM
To: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>, Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>, Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

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Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>, Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>, Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

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Hillary

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(www.blackberry.com)

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Date: Friday, Jan 12, 2018, 11:55 AM
To: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

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Thanks,
Hillary

RE_ Standing Committee on Public Accounts(3).pdf

From:	Lyon, Sam (ENERGY)
To:	Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Cc:	Nutter, George (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	January 12, 2018 12:15:26 PM

I got that impression.

Sent with BlackBerry Work
(www.blackberry.com)

From: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Date: Friday, Jan 12, 2018, 12:09 PM
To: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>, Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>, Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
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Subject: Standing Committee on Public Accounts

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Thanks,
Hillary

RE_ Standing Committee on Public Accounts(4).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Berry, James (ENERGY)
Cc:	Den Heijer, Kevin (ENERGY); Perkins, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	March 5, 2018 10:40:44 AM
Attachments:	20180221 DM Letter to Clerk of the Committee.pdf Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20 .pdf

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Hi James,

Attached is what has been sent to the Clerk regarding attendees and an updated summary status table in response to Chapter 3.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 10:18 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Who is attending on Wednesday from ministry, IESO and OEB?

From: Nucciarone, Michael (ENERGY)
Sent: March 5, 2018 9:52 AM
To: Berry, James (ENERGY) <James.Berry5@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

Unlike Chapter 2 SCOPA, there will not be a mock session for Chapter 3.

We are continuing to finalize materials and will share over when we have finals.

Thanks!
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 9:20 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Is there a prep meeting Michael?

From: Nucciarone, Michael (ENERGY)
Sent: March 2, 2018 2:36 PM
To: Berry, James (ENERGY) <James.Berry5@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

The Deputy is reviewing materials over the weekend and we should have something to send to you on Monday.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 2, 2018 1:41 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: Fw: Standing Committee on Public Accounts

Hi gentlemen -- wanted to ensure below are in the works/ nearly final, including 20 minute statement and friendly Qs. Let me know where things are at when you have a second.

Thanks,
James

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Sent: Friday, March 2, 2018 1:24 PM
To: Berry, James (ENERGY)
Subject: Fw: Standing Committee on Public Accounts

Sorry to throw this on you but I'm assuming that our DMO has been working on the statement and friendlies. Could you check in?

Kevin Den Heijer

From: Richardson, Kyle (OCOC/GHLO) <Kyle.Richardson@ontario.ca>
Sent: Friday, March 2, 2018 1:22 PM
To: Den Heijer, Kevin (ENERGY)
Subject: Standing Committee on Public Accounts

Hey Kevin,

As I believe you know, ENE, IESO and OEB are up next week at the Standing Committee on Public Accounts to discuss Sec. 3.06 of the AG's 2017 Annual Report "Independent Electricity System Operator –Market Oversight and Cybersecurity". I just wanted to give you a quick overview of what is needed for the committee process.

The first 20 minutes of the committee are an opening statement from the officials. The time can be split between officials if desired, but it is not required. Following that, we break into 2 rounds of roughly 20 minute Qs & As with the committee members. We ask for 45 minutes of Qs & As for our members on the committee.

The two main products of the committee are 1) the opening statement and 2) the questions for government Members. There will be a briefing in room 212A at 8:15AM on Wednesday that we ask you to attend.

If you have any questions at all about the process please don't hesitate to contact me.

Thanks!

-Kyle

Kyle Richardson |Press Secretary, Legislative Affairs
Office of the Hon. Yasir Naqvi
Government House Leader
P: 416-325-8291 | C: 647-627-1024

20180221 DM Letter to Clerk of the Committee_2.pdf

Ministry of Energy

Office of the Deputy Minister
Hearst Block, 4th Floor
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6755

Ministère de l'Énergie

Bureau du sous-ministre
4e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél.: 416-327-6758
Téléc.: 416-327-6755

Ontario

February 21, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto ON M7A 1A2

Dear Mr. Koch:

I am writing regarding the review of Independent Electricity System Operator – Market Oversight and Cybersecurity (Section 3.06 of Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, March 7, 2018 from 12:30 p.m. to 3:00 p.m.:

Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Energy Supply Policy Division

Independent Electricity System Operator (IESO)
- Peter Gregg, President and Chief Executive Officer
- Leonard Kula, Chief Operating Officer, Vice President, Planning, Acquisition and Operations
- Glenn McDonald, Director, Market Assessment and Compliance Division
- Sorana Ionescu, Vice President, Information and Technology Services (Acting)

As per the January 29, 2018, memo sent to you from the Ontario Energy Board (OEB), the following individuals from the OEB will also participate:
- Rosemarie Leclair, Chair and Chief Executive Officer
- Glen Leslie, Chair, Market Surveillance Panel
- Martine Band, Associate General Counsel, Legal Services
- Mary Anne Aldred, Chief Operating Officer and General Counsel

In addition, please find enclosed a copy of the summary status table in response to Chapter 3 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Martin Schlaepfer, Director of Operations at 416-326-7688 or Martin.Schlaepfer@ontario.ca if you require further information.

Sincerely,

Serge Imbrogno
Deputy Minister

c: Ernie Hardeman, MPP, Chair of Committee
Bonnie Lysyk, Auditor General

Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2_7.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Summary Status Table in Response to the
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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

RE_ Standing Committee on Public Accounts(5).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Berry, James (ENERGY)
Cc:	Den Heijer, Kevin (ENERGY); Perkins, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	March 5, 2018 6:09:34 PM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI_Final - Ministry.docx 5 - IESO Friendly QA_SCOPA - Market Oversight draft (Mar5) CB edits - IESO.docx

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Hi James,

Attached are the SCOPA friendlies for Wednesday.

As discussed, the larger QA package is being revised and can share with you tomorrow.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 4:44 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Re: Standing Committee on Public Accounts

Any update on when MO can review products, Michael?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY)
Sent: Monday, March 5, 2018 10:40 AM
To: Berry, James (ENERGY)
Cc: Den Heijer, Kevin (ENERGY); Perkins, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: RE: Standing Committee on Public Accounts

Hi James,

Attached is what has been sent to the Clerk regarding attendees and an updated summary status table in response to Chapter 3.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 10:18 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Who is attending on Wednesday from ministry, IESO and OEB?

From: Nucciarone, Michael (ENERGY)
Sent: March 5, 2018 9:52 AM
To: Berry, James (ENERGY) <James.Berry5@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

Unlike Chapter 2 SCOPA, there will not be a mock session for Chapter 3.

We are continuing to finalize materials and will share over when we have finals.

Thanks!
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 9:20 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Is there a prep meeting Michael?

From: Nucciarone, Michael (ENERGY)
Sent: March 2, 2018 2:36 PM
To: Berry, James (ENERGY) <James.Berry5@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

The Deputy is reviewing materials over the weekend and we should have something to send to you on Monday.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 2, 2018 1:41 PM

To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: Fw: Standing Committee on Public Accounts

Hi gentlemen -- wanted to ensure below are in the works/ nearly final, including 20 minute statement and friendly Qs. Let me know where things are at when you have a second.

Thanks,
James

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Sent: Friday, March 2, 2018 1:24 PM
To: Berry, James (ENERGY)
Subject: Fw: Standing Committee on Public Accounts

Sorry to throw this on you but I'm assuming that our DMO has been working on the statement and friendlies. Could you check in?

Kevin Den Heijer

From: Richardson, Kyle (OCOC/GHLO) <Kyle.Richardson@ontario.ca>
Sent: Friday, March 2, 2018 1:22 PM
To: Den Heijer, Kevin (ENERGY)
Subject: Standing Committee on Public Accounts

Hey Kevin,

As I believe you know, ENE, IESO and OEB are up next week at the Standing Committee on Public Accounts to discuss Sec. 3.06 of the AG's 2017 Annual Report "Independent Electricity System Operator –Market Oversight and Cybersecurity". I just wanted to give you a quick overview of what is needed for the committee process.

The first 20 minutes of the committee are an opening statement from the officials. The time can be split between officials if desired, but it is not required. Following that, we break into 2 rounds of roughly 20 minute Qs & As with the committee members. We ask for 45 minutes of Qs & As for our members on the committee.

The two main products of the committee are 1) the opening statement and 2) the questions for government Members. There will be a briefing in room 212A at 8:15AM on Wednesday that we ask you to attend.

If you have any questions at all about the process please don't hesitate to contact me.

Thanks!

-Kyle

Kyle Richardson |Press Secretary, Legislative Affairs
Office of the Hon. Yasir Naqvi
Government House Leader
P: 416-325-8291 | C: 647-627-1024

SCOPA_QA_Friendly_Chapter 3_ICI_Final - Minis.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

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The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

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Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower their electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

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History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. As I mentioned earlier, right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

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By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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5 - IESO Friendly QA_SCOPA - Market Oversight.pdf

Draft March 4, 2018 SCOPA—

Chapter 3 –Friendly Q&As

Overview of IESO and its Responsibilities

Q. Can you provide more detail on how the IESO ensures the reliability of Ontario's electricity system?

Ensuring Reliability

Maintaining the reliability of Ontario`s power system and making sure the lights stay on is at the heart of what the IESO does. Ensuring there is enough energy to meet Ontario's demand 24 hours a day, 7 days a week, is highly complex and requires close coordination of the many parts that make up the system.

These include large and small generators, as well as storage technologies; transmitters and distributors who own and maintain the lines through which the electricity travels; and electricity consumers of all sizes, from residential to large industrial, who are increasingly able to respond to system needs and prices.

Ontario's power system benefits from being interconnected with neighbouring provinces and states. The IESO works with system operators in these other jurisdictions to ensure energy adequacy and reliability across the northeastern part of the continent. These system operators work to develop enforceable standards for the reliable operation of their electricity systems while adhering to continent-wide standards.

Regulatory Reliability Oversight

The IESO is responsible for complying with, overseeing and enforcing mandatory reliability requirements for planning and operating the integrated bulk electric system. The requirements are established by several recognized authorities, including:

- Canada's National Energy Board (NEB), which regulates the importing of electricity and the construction and operation of international and designated inter-provincial electricity lines. The IESO holds two permits with the NEB.

- The North American Electric Reliability Corporation (NERC) sets standards to ensure the reliability and security of the integrated bulk power system.

- The Northeast Power Coordinating Council (NPCC), a delegation of NERC, is responsible for promoting and enhancing the reliability of the interconnected bulk power system in Northeastern North America.

Changing landscape

The generation and delivery of energy is no longer a one-way, top-down process. Traditionally, agencies like the IESO would ensure there were enough generators and transmission lines to produce and deliver electricity.

That's all changed in recent years as the system has become increasingly decentralized as a result of rapid technological advancements, an increasingly engaged consumer, growth in local electricity resources, robust conservation measures and the advancement of climate change policies.

With all of this rapid change occurring, particularly with the increase in intermittent generation, there is an increasing need for the IESO to be able to schedule more resources capable of responding within a short time frame to continue to balance supply and demand effectively. This type of flexibility has become very valuable to system operators across North America.

Today's electricity market and the need for change

The changes we are seeing in the electricity sector will continue to accelerate and is challenging the ability of Ontario's market design to meet system needs. New technologies will continue to emerge and evolve, consumers continue to become increasingly engaged in the sector, and supply and demand is becoming increasingly unpredictable, particularly in real time.

To address this new reality, structural changes to Ontario's market design are required to address existing inefficiencies and prepare us for future change. The Market Renewal initiative will lay the foundation for a made-in-Ontario market of the future.

Since May 1, 2002, the IESO has used markets to efficiently and transparently drive reliable power system operations.

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability.

The Real-Time Generator Cost Guarantee program ensures sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide power system reliability standards. It does this by guaranteeing certain incremental start-up costs to participants

who otherwise might not commit their units when they were not certain they would be able to recover these costs.

Since the blackout in 2003, all power system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for their region. Other system operators have similar approaches to Ontario that commit generators and compensate them for starting up and being available online.

Earlier versions of the RT-GCG program relied heavily on more flexible generation, mostly from coal units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As the IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed, in particular for gas facilities that began to come online around this time.

Gas generators are an important part of the Ontario resource mix, providing energy, operating reserves and other services needed to ensure a reliable power system. Gas generators typically take several hours to start and synchronize to the grid and, once operating, most have to stay on-line for two or more hours to avoid damaging their equipment. During this period, these generators incur costs to start up and meet their minimum-run times that they might be unable to recover through market revenues. The GCG program addresses this by covering certain costs they incur should market revenues fall short.

What this all means is that without the GCG program, the IESO would be unable to ensure that sufficient gas generators are on-line and available to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Until fundamental changes can be made through the Market Renewal Program, the GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Over the years a number of changes have been made to the program, including changes to eligibility and cost submissions

As a result of these changes, RT-GCG program costs have fallen from $61M in 2014 to $23M in 2016 and $22M in 2017.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions. The IESO currently meets this need through the Real-Time Generator Cost Guarantee program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

All U.S. ISOs/RTOs use an intra-day process for resource commitment, with make-whole payments (i.e., cost guarantees). While the details and timing of these programs vary, the fundamental need for such programs is common.

Q. What are Congestion Management Settlement Credits and why are they necessary to ensure reliability?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the IESO to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power. The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

CMSC payments are necessary to incentivize resources to comply with IESO dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but are not reflected in the energy market clearing prices.

Eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

The IESO has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs -- many of these changes are responsive to MSP recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Changes over the years have eliminated inappropriate CMSC payments.

- On four occasions, we′ve made changes to ensure payments occur only in cases where offers of electricity to the market are reflective of actual operating costs (2004, 2005, 2006, 2010)
- Four times, we′ve updated the rules so that payments are more closely aligned with the participant's abilities to actually deliver power (2006, 2011, 2012, 2015)
- On two occasions, we′ve made changes to ensure the accurate application of payments when generators have to deviate from IESO instructions for safety, environmental or legal reasons (2003, 2011)
- And twice, we′ve made changes so that payments are reduced in situations where facilities do not come offline quickly (2010, 2015).

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Market Renewal Initiative

Q. Can you explain what the Market Renewal Program is?

Overview of Market Renewal Initiative

The Market Renewal initiative is reshaping the foundation of Ontario's $17-billion annual electricity market. It is the most significant suite of reforms since the market was first introduced in 2002.

Market Renewal will pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

At its core, Market Renewal is about improving the way electricity is priced, scheduled and procured to meet Ontario's current and future energy needs reliably, transparently, efficiently and at lowest cost.

Ontario is now in a stable electricity supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

The Market Renewal Program includes a number of initiatives that will enable the province to more efficiently meet demand over the near and longer terms and include:

- Introducing a Day-Ahead Market to provide greater certainty to market participants and lower the cost of producing electricity.

- Reducing the cost of scheduling and dispatching resources to meet demand as it changes from hour-to-hour and minute-to-minute through a Single Schedule Market and Enhanced Real-Time Unit Commitment**.**

- Exploring how Ontario's interties could be better used to meet unexpected short-term changes on the system.

- Improving the way Ontario acquires the resources it needs to meet longer-term supply needs by implementing an Incremental Capacity Auction.

Together, these changes will address existing issues with Ontario's market design and provide a platform for the future that encourages innovative solutions. These changes will also deliver the flexibility required to efficiently schedule and dispatch an increasingly diverse, distributed and variable supply mix.

A lot has changed since the market opened more than 15 years ago. Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal,

integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Other system operators have introduced changes to their markets and we need to do the same. The positive supply margins with which we find ourselves make this an opportune time to undertake this initiative. As I noted earlier, Ontario is now in a stable electricity supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Furthermore, inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel, IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

For so long, the market has been mostly about energy – but our supply mix has changed and so have our needs. By unbundling the different services that we need, such as flexibility, we are introducing efficiencies but, more importantly, more competition into the market.

At a high level, market renewal is essentially focused on two work streams -- energy and capacity. The goal of each of these is to send clear and transparent price signals for these different products.

The initiatives in the energy work stream are about significantly improving how electricity resources are scheduled and dispatched day-to-day, hour-to-hour and in real time, based on accurate, transparent price signals that are established on a locational basis. By more efficiently scheduling electricity resources to meet provincial demand, this work stream will help to reduce overall system costs. Specifically, stakeholders are working with us to create a Day-Ahead Market based on a Single-Schedule System, as well as an Enhanced Real-time Unit Commitment to improve dispatch in real time.

The efforts in the capacity work stream are about improving the way Ontario acquires supply to meet medium- and long-term needs. The introduction of a competitive auction in which a wide range of technologies can compete will help to ensure that the province's reliability needs are met at the lowest possible cost.

Overview of system benefits

The results of our market renewal efforts will be instrumental in helping to reduce future costs. Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers while the rest would flow to other market participants. This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a “made-in-Ontario” market design tailored to our province’s needs. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The benefits from Market Renewal are likely to grow over time as Ontario’s electricity sector continues to decarbonize, as contracts expire, and as the sector becomes more distributed in nature.

Market Renewal will better prepare Ontario for the future by creating a competitive framework for effectively incorporating new and emerging technologies.

Market Renewal Timelines

Work began in early 2016 but really ramped up in the fall of 2016. However, the last few months has seen an increased pace of activity.

The IESO is currently working with stakeholders on high level design work for a number of the initiatives for Market Renewal. We expect to see the bulk of the high level design work completed this year.

Timelines beyond 2018 have yet to be finalized and are subject to change based on design and implementation decisions to be made with stakeholders.
We do not currently have a definitive timeline on when consumers will start realizing the savings from Market Renewal but we expect that could begin in 2021.

While there is still much work ahead, through a shared a shared commitment to this process, electricity stakeholders can help to deliver the substantial potential benefits of market renewal.

When the Market Renewal program was launched in the spring of 2016, the IESO held a series of consultations with stakeholders on the rationale, scope and set of initiatives which should be included under the program and developed the Market Renewal Engagement framework. During this time, the IESO also worked with stakeholders and its consultant, the Brattle Group on the development of the benefits case for market renewal, which was completed in April 2017.

Since that time, stakeholder consultations on Market Renewal have evolved and now take place within engagements focused on specific initiatives (such as a Single Schedule Market and an Incremental Capacity Auction). These consultations are the main driver for the design of each the Market Renewal initiatives.

Recognizing the need to build on Ontario’s clean energy supply mix, we have created a separate working group -- the non-emitting resources subcommittee -- to help inform the market design to better accommodate these resources. We will be looking at barriers for

the adoption of these resources. We will also be looking at both what reliability services these clean resources can address and how to appropriately incent them.

I can't stress enough the importance of getting input from stakeholders … that feedback has always been extremely important to the IESO's decision making process and will continue to be throughout the market renewal initiative.

The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or are reluctant to engage.

The IESO will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. We recently announced the appointment a low-volume consumer representative on our market renewal working group to ensure that perspective was being captured.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public on a number of initiatives, including market renewal.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Cybersecurity

Cybersecurity is a growing threat across the board, but particularly in critical infrastructure sectors, like electricity. What is the IESO doing to manage risks, reduce vulnerabilities and strengthen the resilience of Ontario's electricity system?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously. Reliable electricity service is an essential part of Ontario's society and economy, and it contributes to our comfort, safety, as well as the operation of our homes, businesses and services. It is even more critical when you consider its enabling function across all other critical infrastructure sectors.

In our role as reliability coordinator for Ontario, the IESO is responsible for compliance monitoring and enforcement of the North American Reliability Corporation (or NERC's) Critical Infrastructure Protection (CIP) standards, which include cybersecurity standards. The electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

These standards require Ontario's generators, transmitters and other industry participants to categorize their cyber systems based on the impact that their facilities, systems and equipment, if unavailable, would have on the reliable operation of the power grid.

Some of these standards include:

- Security management controls to protect critical cyber assets
- Ongoing cyber vulnerability assessments
- Cybersecurity incident response and recovery planning
- Mandatory staff training and awareness programs
- Procedures to restore critical cyber assets

Ensuring that we are in compliance with the NERC North American standards is just our baseline. Our efforts to guard against cybersecurity threats as they grow in number and complexity require us to be continuously preparing for future reliability needs.

In terms of strengthening the IESO's security posture, we are currently working on several initiatives. From a governance perspective, our new Chief Information Officer will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

To support our in-house team of cybersecurity specialists, the IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated quickly.

We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology.

The IESO is adopting a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the best practice on cybersecurity across all industries and will help the IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

We also recognize that effective cybersecurity management is a collective responsibility that extends to all levels of the organization. We provide our staff with ongoing compliance and awareness training on an annual basis. Year over year, this training helps to increase our organization's understanding of cyber issues resulting in a stronger more resilient workforce.

Cybersecurity, and the associated measures to help reduce or mitigate risks of cyberattacks, has promoted thought-leadership and best practices across virtually all sectors like never before.

As the electricity system becomes more distributed, cybersecurity threats will become more diverse. As a result, there is a growing need for greater collaboration and information sharing of cybersecurity practices to protect electricity system operations and critical information.

The IESO has taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America. I'll touch on these in more detail.

We have hosted several executive and board-level cybersecurity briefings to learn from leading experts in cyber and IT security policy from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity. Speakers have included Ontario's first security advisor, the province's former privacy commissioner, the Assistant Deputy Minister for the Government of Canada's Communications Security Establishment, and the Former Deputy Director of the National Security Agency, among others.

The IESO's Cyber Security Forum, which is held annually, is designed to improve cybersecurity within Ontario's electricity sector and works to:

- Increase awareness around national cybersecurity initiatives
- Develop and collaborate on best practices
- Review current information about incidents, threats, and vulnerabilities
- Discuss information and awareness about emerging technology with an emphasis on possible vulnerabilities and risks

- Share information concerning information security management practices
- Provide support to other electricity specific forums in Ontario, such as IESO's Emergency Preparedness Task Force

The IESO is also a strategic partner with Ontario's electricity sector participants, including:

- Local Distribution Companies
- Ontario Energy Board
- Hydro One (provincial transmitter and distributor)
- Generators
- Large demand customers

The IESO is working with provincial government and the electricity regulator, the Ontario Energy Board, to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution (or local utility) level.

The IESO is working directly with Ontario's local distribution companies to provide training and best practices. For example, we are developing guides on how to effectively manage prominent threats and other ways to enable the protection of distribution-level system operations.

I mentioned the Communications Security Establishment (or CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. The IESO has developed a collaborative relationship with the CSE, which promotes integrated information and data sharing in defending cyber-attacks.

Under NERC rules the IESO is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in Q4 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

This was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016.

The audit concluded that the IESO was in full compliance with applicable standards related to cybersecurity. In addition to ongoing internal compliance, the IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

RE_ Standing Committee on Public Accounts(6).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Berry, James (ENERGY)
Cc:	Den Heijer, Kevin (ENERGY); Perkins, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	March 6, 2018 10:23:33 AM
Attachments:	SCOPA Chapter 3 - March 5 - Clean - QA package.docx SCOPA Chapter 3 intro remarks - all 20180305.docx

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Hi James,

As discussed, attached are the opening remarks along with the larger QA package which is likely to be revised.

Thanks,
Mike

From: Nucciarone, Michael (ENERGY)
Sent: March 5, 2018 6:10 PM
To: Berry, James (ENERGY) <James.Berry5@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

Attached are the SCOPA friendlies for Wednesday.

As discussed, the larger QA package is being revised and can share with you tomorrow.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 4:44 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Re: Standing Committee on Public Accounts

Any update on when MO can review products, Michael?

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Nucciarone, Michael (ENERGY)
Sent: Monday, March 5, 2018 10:40 AM
To: Berry, James (ENERGY)
Cc: Den Heijer, Kevin (ENERGY); Perkins, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: RE: Standing Committee on Public Accounts

Hi James,

Attached is what has been sent to the Clerk regarding attendees and an updated summary status table in response to Chapter 3.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 10:18 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Who is attending on Wednesday from ministry, IESO and OEB?

From: Nucciarone, Michael (ENERGY)
Sent: March 5, 2018 9:52 AM
To: Berry, James (ENERGY) <James.Berry5@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>; Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

Unlike Chapter 2 SCOPA, there will not be a mock session for Chapter 3.

We are continuing to finalize materials and will share over when we have finals.

Thanks!
Mike

From: Berry, James (ENERGY)
Sent: March 5, 2018 9:20 AM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Is there a prep meeting Michael?

From: Nucciarone, Michael (ENERGY)
Sent: March 2, 2018 2:36 PM

To: Berry, James (ENERGY) <James.Berry5@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi James,

The Deputy is reviewing materials over the weekend and we should have something to send to you on Monday.

Thanks,
Mike

From: Berry, James (ENERGY)
Sent: March 2, 2018 1:41 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Perkins, Michael (ENERGY) <Michael.Perkins@ontario.ca>
Cc: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Subject: Fw: Standing Committee on Public Accounts

Hi gentlemen -- wanted to ensure below are in the works/ nearly final, including 20 minute statement and friendly Qs. Let me know where things are at when you have a second.

Thanks,
James

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Den Heijer, Kevin (ENERGY) <Kevin.DenHeijer@ontario.ca>
Sent: Friday, March 2, 2018 1:24 PM
To: Berry, James (ENERGY)
Subject: Fw: Standing Committee on Public Accounts

Sorry to throw this on you but I'm assuming that our DMO has been working on the statement and friendlies. Could you check in?

Kevin Den Heijer

From: Richardson, Kyle (OCOC/GHLO) <Kyle.Richardson@ontario.ca>
Sent: Friday, March 2, 2018 1:22 PM
To: Den Heijer, Kevin (ENERGY)
Subject: Standing Committee on Public Accounts

Hey Kevin,

As I believe you know, ENE, IESO and OEB are up next week at the Standing Committee on Public Accounts to discuss Sec. 3.06 of the AG's 2017 Annual Report "Independent Electricity System Operator –Market Oversight and Cybersecurity". I just wanted to give you a quick overview of what

is needed for the committee process.

The first 20 minutes of the committee are an opening statement from the officials. The time can be split between officials if desired, but it is not required. Following that, we break into 2 rounds of roughly 20 minute Qs & As with the committee members. We ask for 45 minutes of Qs & As for our members on the committee.

The two main products of the committee are 1) the opening statement and 2) the questions for government Members. There will be a briefing in room 212A at 8:15AM on Wednesday that we ask you to attend.

If you have any questions at all about the process please don't hesitate to contact me.

Thanks!

-Kyle

Kyle Richardson |Press Secretary, Legislative Affairs
Office of the Hon. Yasir Naqvi
Government House Leader
P: 416-325-8291 | C: 647-627-1024

SCOPA Chapter 3 - March 5 - Clean - QA packag_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 intro remarks - all 20180305_1.pdf

SCOPA Chapter 3 – Introductory Remarks

Final

Mi<u>nistry of Energy</u>

Introductory Remarks by DM Imbrogno (5 mins)

- (Introductions – to my right, to my left, also joining us ….)

- This afternoon we'll have the opportunity to address the 18 recommendations made by the Office of the Auditor General in chapter 3 of the latest annual report.

- Ontario's electricity system has layers of oversight designed to ensure we have an efficient, cost-effective system and a reliable supply of power.

- In particular, the Ontario Energy Board plays a vital role in ensuring that the electricity market operates in a way that is in the best interest of ratepayers.

- In distinct but interrelated ways, the Ministry and the OEB, and the Independent Electricity System Operator, are continuously looking for ways to improve our electricity system.

- Overall, I am confident that our electricity market works efficiently and serves our residential, industrial and commercial customers well.

- Today is a good opportunity for each of our organizations to speak about the mechanisms we have in place now, and some of the system improvements planned for the future.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for a high degree of oversight in the electricity market.

- In particular, we welcome the advice on the market rule review and amendment process and the enforcement of market rules, and we are committed to working collaboratively in addressing these, including reviewing the Electricity Act as needed.

- We welcome the Auditor's recommendation on the Industrial Conservation Initiative. We continue to monitor the impact of this program.

- Reducing peak demand is a significant priority of my ministry and the ICI is an essential tool in helping us achieve that. We will continue to monitor the effect of this program on all classes of electricity consumers.

- I look forward to answering your questions today. I'm now going to hand it over Rosemarie Leclair, Chair of the OEB, to offer some introductory thoughts. And after Rosemarie, Peter Gregg from IESO will also have introductory remarks. Thank you.

(remarks by OEB and IESO follow)

Ontario Energy Board

Introductory Remarks by Rosemarie Leclair (5 mins)

- Thank you (NAME). Good afternoon Chair and members of the committee. My name is Rosemarie Leclair and I am the Chair and CEO of the Ontario Energy Board.

- I would like to introduce the members of the Board who are with me today:
    - Glenn Leslie, Chair of the Market Surveillance Panel;
    - Mary Anne Aldred, Chief Operating Officer and General Counsel; and
    - Martine Band. Associate General Counsel.

- We were pleased to read in the Auditor General's Report that the OEB's Market Surveillance Panel, the MSP, has been effective in monitoring and reporting inappropriate market conduct.

- Under the Electricity Restructuring Act, 2004, the Market Surveillance Panel transferred from the Independent Electricity System Operator, or IESO, to the Ontario Energy Board, effective January 1, 2005. The MSP is responsible for monitoring the wholesale electricity markets administered by the IESO.

- The MSP has two principal functions:

- The first is regular monitoring and assessment of the IESO-administered markets: Central to the assessment function is the identification and analysis of market outcomes that fall outside predicted patterns or norms. The MSP reports the results of its monitoring and assessment activities twice annually.

- The second function is to investigate market participant conduct: The MSP has broad powers to investigate, but not punish, market participants in relation to their activities in the wholesale markets.

- The OEB posts both these reports on our website when they are completed. Copies of the reports are transmitted to the IESO and OEB staff brief the IESO Board of Directors on the report's findings. Since the Auditor General's Report was released, the OEB has written to the IESO with regard to the IESO's near-term plan to implement the recommendations of the MSP (need to check).

- As stated in our response to the Fall Report, the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998.

- We thank the Committee for inviting us to attend and are happy to answer any questions the Committee may have.

Independent Electricity System Operator

Introductory Remarks by Peter Gregg (10 mins)

- Thank you. I want to begin by thanking the committee for inviting the IESO to be here today to discuss the 2017 Auditor-General's report, as well as the Auditor-General and her staff for their recommendations and their cooperation throughout the development of the report.

- I am here today with:

    - Leonard Kula, Vice-President of Planning, Acquisition, and Operations;
    - Sorana Ionescu, Acting Vice-President of Information and Technology Services;
    - Glenn McDonald, Director of our Market Assessment and Compliance Division.

- I want to say a quick word about the IESO's mandate, and then I'll focus on some of the topics discussed in the Auditor-General's report, specifically our role with respect to market oversight and cybersecurity.

- The IESO works at the heart of Ontario's electricity system and has a broad mandate that includes: o planning to meet Ontario's electricity needs in the near and long term; o operating the provincial electricity grid;

    - administering the electricity market;
    - fostering a culture of conservation; and
    - engaging with stakeholders and communities across the province.

- We also have a key role informing and implementing policy, and creating opportunities that enable innovation in the sector.

- Most of what we do is informed by stakeholder input. In fact, creating processes for stakeholders to provide input is a legislative requirement of ours. A set of principles guides our engagements, ensuring that they are open, transparent, inclusive and have adequate representation of the public. The final decision always lies with the IESO, but creating processes to receive public feedback indiscriminately is a key principle of ours.

- Stakeholder input has significantly improved the quality of our work, particularly guiding process and market design changes. Similar to other market operators in North America, engaging with the market participants who collectively keep the system running is critical, and that's part of why stakeholder engagement is part of our DNA.

- When it comes to administering Ontario's electricity market, the IESO's Market Assessment and Compliance Division, a ring-fenced business unit, monitors its operation, fostering compliance with the province's market rules and North American reliability standards. Its enforcement authorities also include the ability to audit certain market programs and adjust payments from the program, similar to Canada Revenue Agency tax audits.

- The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at MACD and the process of ongoing review of priorities. Attracting staff with expertise in market rules and investigations continues to be a priority.

- All of these efforts would be for nothing if we weren't able to ensure Ontarians have power when they need it… and that is why

maintaining the reliability of Ontario's electricity system is at the core of what the IESO does.

- The Auditor General's 2017 report focuses on two market functions that are critical to accomplishing this task: the Real-Time Generator Cost Guarantee program and Congestion Management Settlement Credits.

- Without these programs, the reliability of Ontario's electricity system would be reduced and North American power system reliability standards would not be met—these standards were put in place following the 2003 blackout and are mandatory in Ontario.

- The IESO's Market Assessment and Compliance Division and the Ontario Energy Board's Market Surveillance Panel have identified inefficiencies with these programs and the IESO has taken action to address them.

- Enhancements to the Real-Time Generator Cost Guarantee program include pre-defined costs and stricter rules that have increased transparency and efficiency. Annual program costs were $22 million in 2017, down significantly from $61 million in 2014. Costs claimed under the previous version of the program that could have been found to be ineligible were identified and the majority were recovered, and one generator responsible for two-thirds of the costs was fined an additional $10 million.

- Regarding Congestion Management Settlement Credits, the IESO has updated more than a dozen market rules to make it more efficient. As the MSP noted in a December 2016 report, "Many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- In some instances, our assessments have found that implementing changes recommended by the Market Surveillance Panel would compromise the reliability of Ontario's electricity system. This speaks to the different mandates of the MSP and IESO. The MSP looks at our electricity system from a market efficiency standpoint, while the IESO must consider a broader range of factors, most importantly impacts on reliability.

- Ontario is in a stable supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive and transparent electricity market.

- It is through the electricity market that we accept offers and bids for energy and schedule the lowest-cost resources needed to meet the province's electricity needs. In this way the market provides the most efficient outcomes, as it does in other jurisdictions, and it is through the market that we maintain a reliable system.

- Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers. This will include replacing the RealTime Generator Cost Guarantee program with a more efficient and transparent mechanism and eliminating Congestion Management Settlement Credits. The OEB's Market Surveillance Panel is supportive and is participating in the market renewal initiative.

- On cybersecurity, the Auditor General acknowledges that the IESO is adhering to North American standards but suggests that further enhancements could be made.

- Cybersecurity remains at the core of the IESO's role in maintaining the safe and reliable operation of Ontario's power grid and a reliable supply of electricity for Ontarians, and we take this job very seriously.

- For us, ensuring effective cybersecurity management comes down to three mains things:

    - 1. Continuously strengthening our organization's security posture
    - 2. Ensuring compliance while driving innovation, and
    - 3. Establishing strategic partnerships to innovate cyber defense

- We have recently hired a new Chief Information Officer (or "we are in the final stages of selecting a new CIO"). The IESO's CIO will continue to drive our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management continues to be addressed, enhanced and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, the IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring to assist with incident detection and response.

- Beyond the ongoing technical improvements the IESO is implementing to maintain and strengthen its cybersecurity posture, we remain committed to playing a leadership role in the electricity sector by supporting innovation and capacity building in the field of cyber threat management. We bring together sector counterparts as well as the world's leading cybersecurity policy experts to share best practices in addressing existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector.

- As we've seen recently, the federal government has committed to significant investments in cyber threat management. The IESO is working with the Communications Security Establishment (CSE), Canada's cryptographic agency. Together we are exploring integrated information and data sharing in defending cyberattacks and working on ways to proactively address mutual cyber issues.

- In closing, the IESO supports the Market Surveillance Panel`s work and acknowledges the recommendation made by the Auditor General. I look forward to answering any questions you have today.

RE_ Standing Committee on Public Accounts.pdf

From:	Armstrong, Hillary (ENERGY)
To:	Lyon, Sam (ENERGY)
Cc:	Nutter, George (ENERGY); Nucciarone, Michael (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	RE: Standing Committee on Public Accounts
Date:	January 12, 2018 11:59:14 AM

Thanks for the heads up Sam. Michael is going to be leading this one in the DMO, so I'm including him as well.

Hillary

Sent with BlackBerry Work
(www.blackberry.com)

From: Lyon, Sam (ENERGY) <Sam.Lyon@ontario.ca>
Date: Friday, Jan 12, 2018, 11:55 AM
To: Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Cc: Nutter, George (ENERGY) <George.Nutter@ontario.ca>
Subject: RE: Standing Committee on Public Accounts

Hi Hillary,

FYI, we just had a call with TBS and MOF Comms on the upcoming public accounts meeting. They mentioned that there was a DMs briefing next Friday on this, and gave us a heads up that at the meeting there would be a desire to go over the various "swim-lanes" for the ministries/agencies, and to get an idea of the various issues that ministries might expect to emerge from our individual perspectives.

I should be getting an agenda through from TBS shortly – will send that through when I have it. They'll also be sending through a speech (likely later on) that DM Angus would make at the beginning of the appearance, which would naturally include material that ENERGY would need to review.

Cheers,

S.

From: Armstrong, Hillary (ENERGY)
Sent: January 5, 2018 6:46 PM
To: Cox, Hilary (ENERGY)
Cc: Schlaepfer, Martin (ENERGY); Nucciarone, Michael (ENERGY); Lyon, Sam (ENERGY); Berg, Denna (ENERGY)
Subject: Standing Committee on Public Accounts

Hi Hilary,

I don't think I actually sent this your way before. We have been asked to attend the Standing Committee on Public Accounts for two chapters of the AG's 2017 Annual Report:

- Chapter 2 – Public Accounts of the Province (February 28)
- Chapter 3 – Market Oversight and Cybersecurity (March 7)

You will see holds in the calendar for both of these dates. Next week I will regroup with the Deputy on next steps for this and we will be in touch.

In terms of attendees, for Chapter 2, the Deputy would like Steen to attend (both OPG and IESO will also be attending. Does Steen also want Tim to attend? If you can confirm with him on Monday that would be great, as TBS is coordinating and is interested in our names. For Chapter 3, both the OEB and IESO will be attending, and the Deputy will want Steen there as well. Let me know if Steen wants a director at this one as well, and I can confirm with the Deputy.

Thanks,
Hillary

RE_ Status Table_Ch 3 of AG AR_SCOPA_Draft - Fe....pdf

From:	David Barrett
To:	Hume, Steen (ENERGY); Cox, Hilary (ENERGY)
Cc:	Jordan Penic; Schlaepfer, Martin (ENERGY)
Subject:	RE: Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 20
Date:	February 20, 2018 1:37:22 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 20.docx

Thanks Steen, Hilary. Here's our update attached, tracked.

Just in case, when is the "final final" on this?

David

From: David Barrett
Sent: February 20, 2018 12:26 PM
To: 'Hume, Steen (ENERGY)'
Cc: Jordan Penic; Schlaepfer, Martin (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 15

Understood Steen, I've escalated.

From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: February 20, 2018 12:17 PM
To: David Barrett
Cc: Jordan Penic; Schlaepfer, Martin (ENERGY); Cox, Hilary (ENERGY)
Subject: RE: Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 15

Hi David. Not sure that will work for us. As you know, this has been a known priority for a number of weeks.

If something isn't in by mid-afternoon, we may have to go with IESO's previous feedback noted in the current draft.

Steen

From: David Barrett [mailto:david.barrett@ieso.ca]
Sent: February 20, 2018 12:11 PM
To: Hume, Steen (ENERGY); Cox, Hilary (ENERGY)
Cc: Jordan Penic
Subject: RE: Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 15

Steen, Hilary, confirming a few things and will get back to you shortly. I may have added input no later than tomorrow AM though – some staff returning from being away last week who may not get to this until much later today.

Thanks,
David

From: Hume, Steen (ENERGY) [mailto:Steen.Hume@ontario.ca]
Sent: February 20, 2018 11:08 AM
To: Jordan Penic; David Barrett
Cc: Cox, Hilary (ENERGY)
Subject: FW: Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 15

Hi Jordan / David: Hope you had a good weekend. Just checking in on the status of IESO input on the attached.

We're starting to get some pressure from DMO since we need to send the status table over to the SCOPA clerk tomorrow.

Thanks, Steen

From: Cox, Hilary (ENERGY)
Sent: February 16, 2018 2:04 PM
To: Jordan Penic (jordan.penic@ieso.ca); 'David Barrett'
Subject: FW: Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 15

Hi Jordan and Dave –
Attached is a (slightly revised) SCOPA chapter 3 table. As you can see, we will include the December responses in the table itself. Consequently, we've added a heading in each row called 'status update' to be explicit about what is the December response and what is our update at this stage.

I have copied the info you provided into each row. Given that we will now be including the December response in the body of the table, you may want to revise what is now included under status update (although Steen does not that it is not essential since the status update bullets are effective as is).

The last change you'll see is included by way of 2 comments boxes on the 'outstanding undertakings' column. Rather than stating 'none' in these cases, please indicate that IESO believes it has completed the undertaking.

I will need this back by Tuesday am so that it can be submitted to DMO and transmitted to committee on Wednesday.

Thanks so much, and feel free to call if you have questions.

Hilary

W: (416) 327-7204
Bb: (647) 237-8140

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Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb .pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** • The IESO considers every OEB Panel recommendation and the OEB Panel's underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. • When the OEB Panel issues recommendations, usually through its	The IESO will continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. • Should the MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	OEB Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:**	
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information.	The Ministry is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information.	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly IESO reports and the quarterly Ontario Energy Report.
AG Recommendation #5	**2017 Annual Report – Response:**	The IESO is making fundamental changes to the electricity market, through the Market Renewal Program, that will

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To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.	In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** • The IESO is scheduled to meet with the OEB Panel on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits.	The IESO is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

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	The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **Status Update:** • In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22 million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each	The IESO has introduced fundamental changes through Market Renewal that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200-million comprehensive

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.	recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** • The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit	program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

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	Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled;*	**2017 Annual Report – Response:** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory	The IESO will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by ~~Q2/~~Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

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and • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/document-library/sac/sac_tor.pdf). **Status Update:** • In December, 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The IESO will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e. full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.

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sanctioning significant rule violations; and • *attract and retain staff with experience in market rules and expertise in investigation.*	See Outstanding Undertakings for additional information.	
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties. **Status Update:** See Outstanding Undertakings for additional information.	The Ministry is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of MACD regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:**	MACD expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.

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the Oversight Division's computer system as soon as possible.	• Substantial technical support has been provided to the Market Assessment and Oversight Division to enable the development of technical business requirements geared towards an enforcement support tool. The Division is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:** • Prior to the release of the Auditor's report, the IESO completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	~~None~~The IESO has completed all actions to address the recommendation.
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	Target date for appointment of Chief Information Officer is by end of Q1 2018. The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

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executives and the IESO Board of Directors.	**Status Update:** • Prior to the release of the Auditor's report, the IESO had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. • Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. • The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization. • The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a	~~The IESO intends to double the size of its current cybersecurity team in 2018.~~ ~~Once the senior-level position overseeing cybersecurity is retained, the IESO will immediately proceed with the recruitment of the additional team members. The IESO expects that the four additional full-time resources will be in place in Q2 2018.~~

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staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.	cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** • Prior to the release of the Auditor's report, the IESO had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. • The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The IESO has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring. ~~The SOC vendor is expected to be in place in Q2 2018.~~
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic	The incoming Chief Information Officer and senior-level cybersecurity resource (as referenced in the IESO responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected ~~The~~

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	view on all IESO projects. **Status Update:** • ~~It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices.~~ • ~~On an ongoing basis, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.~~ • ~~This will be further facilitated by the Q4 2017 formation of T~~the IESO's new ~~Program~~ Project Management Office was formed in Q4 2017. ~~that exists in the Corporate Services business unit, rather than in IT, which will ensure an enterprise-holistic view on all IESO projects.~~	~~target completion date for the report is~~to be in place by the ~~Q3~~ end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year.	The IESO is currently making minor refinements to the Advanced Malware system, and the project is intended to be ~~fully~~ implemented by ~~mid~~the end of ~~-~~ Q1 2018.

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	Status Update: • The IESO has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. • Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** • On an ongoing basis, the IESO's cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	The IESO is in the process of developing and implementing supply chain risk management measures ~~to~~ that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.- As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; t~~.~~he guide is expected to be in place by the end of 2018~~The target completion date for the report is Q3-2018~~.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** • The IESO has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The IESO has completed all actions to address the recommendation.~~None~~

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RE_ Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject:	RE: Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE
Date:	February 13, 2018 3:13:28 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE.docx

I only saw one comment – it's been addressed in this version.

From: Cox, Hilary (ENERGY)
Sent: February-13-18 3:10 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE

Hi Guys -

A couple edits from Steen on the Ch. 3 status table. Appreciate these back by tomorrow at noon.

HC

Status Table_Ch 3 of AG AR_SCOPA_Draft-EPE_3.pdf

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AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	The Ministry is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules~~, particularly in instances where the potential for abuse exists~~. This review is expected to be completed this year.
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective

Commented [HS(1]: Do we want to highlight this point.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	system for all ratepayers. The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly IESO reports and the quarterly Ontario Energy Report.
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead
AG Recommendation #7	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.	recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO): • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO)*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need for additional legislative authority to assist MACD in performing its mandated duties.	ENERGY Lead The Ministry is committed to strong electricity market oversight in Ontario, and is working closely with IESO in reviewing the appropriate role and legislative authority of MACD regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
course of its investigations.		
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.	for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.	with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	IESO Lead
AG Recommendation #17	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that: • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre.	IESO Lead

RE_ Updated for ADM approval_ SCOPA Numbers at ...(1).pdf

From:	Kitchen, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	RE: Updated for ADM approval: SCOPA Numbers at a Glance
Date:	February 27, 2018 1:51:59 PM
Attachments:	AFT SCOPA BN Feb 26 2018 ksh v2.docx 2018-02-26 NUMBERS AT A GLANCE AFT_SCOPA KSH v2 1.docx

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Kaili:

Attached are the:

1) Updated BN – CEEB has updated the note (edits tracked) to ensure the langue is current
2) Numbers at a Glance – updated to mention that the 4 LDCs will be submitting their budget allocations soon

QAs are are going through one last review with CEEB.

Matt

From: Kitchen, Matthew (ENERGY)
Sent: February 27, 2018 11:39 AM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: RE: Updated for ADM approval: SCOPA Numbers at a Glance

Kaili:

Attached please find the updated SCOPA Numbers at a Glance – names of 4 LDCs who have signed agreements but have not submitted budget allocations (tracked). Note that the number has increased from the 2 LDCs reported yesterday.

Next steps once ADM approved:

1) Send clean versions of (1) Issues Note (also attached as an FYI) and (2) Numbers at a Glance to DM in preparation of tomorrow.
2) Print out final ADM binder.

Matt

From: Kitchen, Matthew (ENERGY)
Sent: February 26, 2018 5:00 PM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: Updated for ADM approval: SCOPA materials

Kaili:

Attached, please find CEEB's updated SCOPA materials – (1) Top Issues and (2) Numbers at a Glance.

CEEB prioritized these two documents; updated QAs to follow later today.

Matt

From: Schwab-Pflug, Emma (ENERGY)
Sent: February 26, 2018 4:32 PM
To: Kitchen, Matthew (ENERGY)
Cc: Syed, Usman (ENERGY); Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Matt, see attached to address Kaili's comments, all edits tracked. QAs to follow.
Thanks, Emma

From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 2:51 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Please find enclosed the 'by the numbers' and Issues note. I am working on the QAs now.

Thanks,
Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,
Emma

From: Kitchen, Matthew (ENERGY)
Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)

Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,

Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs

QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

AFT SCOPA BN Feb 26 2018 ksh v2.pdf

SCOPA 2018 AFT NOTE

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which ~~will~~ provides oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.
- The table below outlines the Board of Trustees for the Affordability Fund Trust.

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister) (non-voting)

- Local utilities are rolling out the Affordability Fund over the coming months, and in some parts of Ontario eligible customers have started receiving benefits.

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

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- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.
- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- An interim Advisory Committee was established by the Ministry of Energy to make recommendations to the Original Trustee regarding the appointments of the Board of Trustees. The Committee acted independently to appoint the Board of Trustees. Committee members were selected because they possessed relevant knowledge and experience to identify and evaluate suitable replacement Trustees. Advisory Committee members were:
    - Brian Bentz (CEO, Alecta Utirlities)
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How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
    - Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- ~~Priority is expected to be given to homes primarily heated by electricity.~~
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), ~~at no or minimal cost,~~ such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation
- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

- The levels of support provided through the Affordability Fund are relative to the household's electricity bill and net income.

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Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $500~~260~~ to over $~~6~~15,000 per customer (including air source heat pumps). ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***

- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- Hydro One has played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.
- The TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to

electricity customers.

CABINET REPORT BACK

- ENERGY was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.
- ENERGY's first report back to TB/MBC through the PRRT process was in October 2017 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.
    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

2018-02-26 NUMBERS AT A GLANCE AFT_SCOPA KSH .pdf

NUMBERS AT A GLANCE – Affordability Fund Trust

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, **approximately 4,280 applications** had been received.
- Eligible applicants are starting to receive benefits which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent **$1,709,724**, and earned interest on investment of **$98,969,457**.
    - Examples of activities covered under these costs include detailed program design, including stakeholder consultation, and processes established to support the administration of the Fund and
- As of February 23, 2018:
    - **60 (of about 65**) LDCs have indicated an interest in delivering the Affordability Fund program
    - **26** LDCs have signed Implementation Agreements with the Trust.
    - Approximately **36% of the $100M budget** has been allocated.

APPENDIX – INTERNAL DATA

NTD: The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 22-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)	1,186
Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	286
Sent to LDCs or Ready to be Sent to LDCs	2,810
Total Applications Processed	**4,280**

Metrics As of Feb 22, 2018*	**Amount**
Number of Participating LDCs	60
Number of Implementation Agreements Signed	26
Budget Allocations Received	22
Up-Front Allocations Posted	$8 M
Dollars Allocated Overall	$32 M
Percent of $100M Allocated ($89.1M)**	36%

** $89.1M has been earmarked for the electricity distributors. The balance is intended for AFT's central admin and other costs to establish and oversee the Affordability Fund

Metrics:

Number of Participating LDCs: refers to those LDCs who have indicated they are interested to deliver the Affordability Fund program to their customers. The 60 LDCs represent a total base of 5,068,320 residential customers.

Number of Implementation Agreements Signed: The AFT can delegate an electricity distributor to deliver the Affordability Fund program through execution of an Implementation Agreement between the Trust and the distributor.

Percent of $100 M Allocated: This is the total of submitted and approved budget requests. In addition to implementation agreements, the distributors must submit to the AFT a budget request. Once approved distributors can receive an up-front allocation (to cover start-up/admin) and then recover costs on basis of invoicing. Distributors must establish a separate AFT account for all money which is to be received from the Trust. About $32 million of the budget has been allocated, $8 million of which will be provided up-front.

AFT LDC BUDGET ALLOCATION

- The following 22 LDCs have submitted budget allocations; 4 additional LDCs have signed Implementation Agreements but have yet to submit their budget allocations (see below).

Commented [KM(1]: Add names of the two LDCs into the table below with n/a in the UpFront and Total Allocation Column

Commented [RO(2R1]: Resolved

Name of LDC	Up-Front	Total Allocation
Alectra Utilities	$3,027,500	$12,110,000
Algoma Power	$143,500	$574,000
Canadian Niagara Power Inc.	$144,500	$578,000
Chapleau Public Utilities Corporation	$61,570	$246,280
Cornwall Street Railway Light and Power	$369,438	$1,477,750
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Greater Sudbury Hydro Inc.	$607,393	$2,429,570
Hearst Power Distribution Company Limited	$63,130	$252,520
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Northern Ontario Wires Inc.	$248,685	$994,740
Oakville Hydro Electricity Distribution Inc.	$134,312	$537,250
PUC Distribution Inc.	$618,498	$2,473,990
Renfrew Hydro Inc.	$137,625	$550,500
Welland Hydro-Electric System Corp.	$200,484	$801,936
West Coast Huron Energy Inc.	$52,705	$210,820
Westario Power Inc.	$185,125	$740,500
Total	$8,014,768	$32,044,440

The following four LDCs ~~with~~ have signed Implementation Agreements and will submit their ~~with no~~ Budget Allocations in the near future:

- Centre Wellington Hydro;
- Kenora Hydro;
- Rideau St. Lawrence Distribution Inc.; and
- Waterloo North Hydro

AFT 2018 BUDGET Forecast (does not include allocations to LDCs)

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

- The 2018 projection is higher than that of 2017 as it accounts for the full year, includes the Parachute Work Management system, and cost centre charges (anticipated to increase with increased activity).

RE_ Updated for ADM approval_ SCOPA Numbers at ....pdf

From:	Kitchen, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	RE: Updated for ADM approval: SCOPA Numbers at a Glance
Date:	February 27, 2018 11:38:54 AM
Attachments:	2018-02-26 NUMBERS AT A GLANCE AFT_SCOPA KSH v2 1.docx AFT SCOPA BN Feb 26 2018 ksh.docx

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Kaili:

Attached please find the updated SCOPA Numbers at a Glance – names of 4 LDCs who have signed agreements but have not submitted budget allocations (tracked). Note that the number has increased from the 2 LDCs reported yesterday.

Next steps once ADM approved:

1) Send clean versions of (1) Issues Note (also attached as an FYI) and (2) Numbers at a Glance to DM in preparation of tomorrow.
2) Print out final ADM binder.

Matt

From: Kitchen, Matthew (ENERGY)
Sent: February 26, 2018 5:00 PM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: Updated for ADM approval: SCOPA materials

Kaili:

Attached, please find CEEB's updated SCOPA materials – (1) Top Issues and (2) Numbers at a Glance.

CEEB prioritized these two documents; updated QAs to follow later today.

Matt

From: Schwab-Pflug, Emma (ENERGY)
Sent: February 26, 2018 4:32 PM
To: Kitchen, Matthew (ENERGY)
Cc: Syed, Usman (ENERGY); Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Matt, see attached to address Kaili's comments, all edits tracked. QAs to follow.
Thanks, Emma

From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 2:51 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Please find enclosed the 'by the numbers' and Issues note. I am working on the QAs now.

Thanks,
Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,
Emma

From: Kitchen, Matthew (ENERGY)
Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)

Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs
QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director

- Tough QA on ‘so is it $100million or $200 million’

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

2018-02-26 NUMBERS AT A GLANCE AFT_SCOPA KSH _1.pdf

NUMBERS AT A GLANCE – Affordability Fund Trust

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, **approximately 4,280 applications** had been received.
- Eligible applicants are starting to receive benefits which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
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    - Examples of activities covered under these costs include detailed program design, including stakeholder consultation, and processes established to support the administration of the Fund and
- As of February 23, 2018:
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AFT SCOPA BN Feb 26 2018 ksh.pdf

SCOPA 2018 AFT NOTE

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.
- The table below outlines the Board of Trustees for the Affordability Fund Trust.

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister) (non-voting)

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
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- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
    - Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
    - Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor,

a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), at no or minimal cost, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation
- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $260 to over $6,000 per customer (including air source heat pumps).

- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

- Hydro One has played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

- The TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if

needed at that time a multi-year funding request.

- ENERGY's first report back to TB/MBC through the PRRT process was in October 2017 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.
    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

RE_ Updated for ADM approval_ SCOPA QAs.pdf

From:	Kitchen, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	RE: Updated for ADM approval: SCOPA QAs
Date:	February 27, 2018 3:02:04 PM
Attachments:	a 2018-02-26 QA AFT_SCOPA_KSH v3.1v clean.docx

Kaili:

Attached for ADM approval, please find the updated SCOA QAs. I have worked with CEEB to streamline the QAs, taking away redundant bullets/questions, as well as reorganizing the order of some questions to make them flow better. We have also taken a look to ensure the information is accurate and consistent with other SCOPA materials.

I have attached a clean version as the tracked edits version can be confusing (please let me know if you would like to see the tracked edits).

Matt

From: Kitchen, Matthew (ENERGY)
Sent: February 27, 2018 1:52 PM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: RE: Updated for ADM approval: SCOPA Numbers at a Glance

Kaili:

Attached are the:

1) Updated BN – CEEB has updated the note (edits tracked) to ensure the langue is current
2) Numbers at a Glance – updated to mention that the 4 LDCs will be submitting their budget allocations soon

QAs are are going through one last review with CEEB.

Matt

From: Kitchen, Matthew (ENERGY)
Sent: February 27, 2018 11:39 AM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: RE: Updated for ADM approval: SCOPA Numbers at a Glance

Kaili:

Attached please find the updated SCOPA Numbers at a Glance – names of 4

LDCs who have signed agreements but have not submitted budget allocations (tracked). Note that the number has increased from the 2 LDCs reported yesterday.

Next steps once ADM approved:

1) Send clean versions of (1) Issues Note (also attached as an FYI) and (2) Numbers at a Glance to DM in preparation of tomorrow.
2) Print out final ADM binder.

Matt

From: Kitchen, Matthew (ENERGY)
Sent: February 26, 2018 5:00 PM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: Updated for ADM approval: SCOPA materials

Kaili:

Attached, please find CEEB's updated SCOPA materials – (1) Top Issues and (2) Numbers at a Glance.

CEEB prioritized these two documents; updated QAs to follow later today.

Matt

From: Schwab-Pflug, Emma (ENERGY)
Sent: February 26, 2018 4:32 PM
To: Kitchen, Matthew (ENERGY)
Cc: Syed, Usman (ENERGY); Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Matt, see attached to address Kaili's comments, all edits tracked. QAs to follow. Thanks, Emma

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From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 2:51 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Please find enclosed the 'by the numbers' and Issues note. I am working on the QAs now.

Thanks,

Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,
Emma

From: Kitchen, Matthew (ENERGY)
Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the “numbers at a glance” document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)

Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs
QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

a 2018-02-26 QA AFT_SCOPA_KSH v3.1v clean.pdf

AFFORDABILTY FUND

QAs for SCOPA

1. **Why is the affordability fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the program?**

    - The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors effectively and expeditiously.

    - With approximately 65 electricity distributors in the province, having the Province enter into agreements with each distributor was not feasible.

    - The Trust structure establishes an independent entity with expertise from the community and electricity distributor sectors. This has enabled the Trust to leverage directly the knowledge and expertise of the sectors best positioned to target customers in need of assistance.
        - The Board of Trustees for the Trust includes representation from two community organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three distributors (Thunder Bay Hydro, Alectra and Hydro One). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

    - Administering the Fund through an independent Trust, as opposed to the IESO or OEB, enables the Fund to focus on its mandate of helping those who are in need, but not eligible for low-income conservation programs.

    - Hydro One has played an important role in facilitating the establishment of the Trust, and continues to play an administrative support role to the Board of Trustees in the implementation of the Affordability Fund.
        - They (Hydro One) are the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.

    - The IESO, which has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of the Home Assistance Program.

- In fact, in August 2017, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. How much control does the Province or Hydro One have over the Trust?

- The Affordability Fund Trust has been established as a non-controlled independent Trust to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements.

- The Trust is undertaking its duties on the basis of principles and guidance in the Transfer Payment Agreement between the Ministry of Energy and the Trust, and the Declaration of Trust, established by the Province.

- Trustees have discretion on how they implement the program.

- The Trust structure leverages the expertise of the electricity and community sectors. The composition of the Board of Trustees represents a geographical cross section of the Province.

- Individual members were recommended by an Advisory Committee, established by the Ministry of Energy. Members include:

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One representatives to ensure that Hydro One does not control voting decisions of the Trust.

  - Hydro One played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and delivery of the Affordability Fund.

- A Ministry of Energy representative sits on the Board as a non-voting Trustee and is the only government representative on the Board.

3. What accountability and reporting structures are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

- The Transfer Payment Agreement (TPA) between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectations of the Trust and the Trustees, including the delegation of program delivery to electricity distributors.

- The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

- The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

4. Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

  - In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:

    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015. We also know that over 58,000 customers were disconnected the following year (2016)

    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which

provides low-income support program.

- In January of 2017, Hydro One submitted a report to the Ministry of Energy titled "Addressing Affordability". The report outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs offered by their local distribution company

- For example, the existing Home Assistance Program (HAP) delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes.
    - HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes.
    - Measures installed though HAP include LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars.
    - Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

- To qualify for HAP participants are required to meet a mandated definition of low-income consumers (derived from Statistics Canada).

    - Not all customers who are in need meet the mandated definition and are therefore not eligible for HAP.

5. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

- The Affordability Fund was established through an independent Trust that was provided with an upfront amount of $100 million. The Trust is administering the Affordability Fund and disbursing funding to electricity distributors.

- Given the scope of the Fund, a firm upfront financial commitment was required before implementation as:
    - An upfront commitment enables the Trust to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow;

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas; and

- The Trust is helping to address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help customers get on a more sustainable path with their energy bills.

6. Explain how payments to the Trust and electricity distributors are made.

- The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, who in turn deliver energy efficiency measures to eligible customers.

- The amount of funding will vary across LDCs. LDCs submit budget allocations to the Affordability Fund based on their assessment of the potential number of eligible applicants, which would include consideration of factors such as the number of customers residing in electrically heated homes.

7. What are the anticipated overhead requirements for the Affordability Fund?

- The Trust is responsible for establishing the program's design, consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province.

- It is expected that the Trust will manage its administrative/overhead expenses in a manner that optimizes the funds available for eligible customers.

8. Were there other potential organizations that could have delivered the program?

- Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered lacking the necessary capacity to design and ensure effective and timely delivery of this type of program.

    - The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the

Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise in conservation and demand management programs and no direct channel or ties to electricity distributors.

- LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs.
    - LDCs and other electricity distributors such as Independent Power Authorities, who are also eligible for the Fund, are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

9. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

- The Affordability Fund is accessible to electricity distributors to deliver energy efficiency measures to Ontarians who are not eligible for the low-income Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The program is delivered in three steps.
    - Step 1 – the homeowner first contacts the Affordability Fund through the website or by phone to determine if their electricity bill is a burden;
    - Step 2 - an Affordability Fund representative will contact the homeowner for basic information such as household income and average electricity bill;
    - Step 3 – homeowner will receive their energy efficiency measures and upgrades.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - energy-saving light bulbs (LEDs);
    - power bars;
    - energy efficient window ACs;
    - refrigerators, freezers, dehumidifiers;
    - low-flow showerheads, hot water blankets;
    - pipe wrap and faucet aerators (in homes with electric water heating); and
    - programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Additional Affordability Fund measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher.

- Cold climate air source heat pumps, which can cost from $7,000 to $13,000, are also an eligible measure under the Fund for homes that are electrically-heated.

- The types of home upgrades and total cost of measures a customer will be able to receive from the Affordability Fund are calculated by the household's level of electricity burden.

- A household's level of energy burden, known as the *Electricity Affordability Burden (EAB)*, measures the strain energy costs place on that household. The EAB is calculated by dividing a household total energy charges by the net household income.

- Depending on the level of their EAB, a household will qualify for one of three levels of measures:
    - *Level 1:* A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators). LDCs are also expected to conduct targeted outreach to identify potential customers.
    - *Level 2:* Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - *Level 3:* Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: range of $500-$15,000 per customer is confidential and has not been made public)***

10. What is an electricity affordability burden?

- Fund beneficiaries will be members of households whose electricity costs place a strain on the family. This strain is captured in a metric known as the Electricity Affordability Burden (EAB).

- The EAB is calculated by dividing the total electricity charges by the net household income. This total electricity charges include the installment and fees expected of the account holder over the period under consideration. Installment payments, bills, and fees are assessed over the same period as the net household income.

  EAB = (Electricity Bills + Installment Payment + Fees) / Net Household Income

11. What is the eligibility criteria for the program?

- The Affordability Fund is accessible to Ontarians who are not eligible for the low-income Home Assistance Program (HAP) and who are unable to undertake energy efficiency improvements without support.

- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

- The residence must be located in the Province of Ontario and be used exclusively for residential occupancy or be a multi-unit residence, with the Beneficiary being responsible for the direct payment of their electricity usage and costs.

- The level of support available to eligible households under the Affordability Fund program is based on the electricity affordability burden.

12. **Would tenants be eligible?**

- The Affordability Fund is targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills.

- Tenants who pay their electricity bills could be among the eligible customers identified by distributors as needing help.

- Eligible customers will be identified by distributors and could include those in frequent arrears or facing disconnection.

13. How soon will eligible customers be able to start benefiting from the Fund?

- Eligible customers are beginning to receive energy efficiency measures. LDCs are rolling out the Affordability Fund over the coming months. As of February 23, 2018, 26 LDCs have signed implementation agreements with the Affordability Fund; with 22 of the 26 also submitting their budget allocations.

14. How much can a customer who takes advantage of the Fund expect to save?

- Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home.

- Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year.

- In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

15. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

- The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid.

16. Will the program be delivered province-wide?

- Yes, the program is available province-wide.

- The Affordability Fund Trust is accessible to all electricity distributors in Ontario, to provide energy efficiency upgrades to eligible customers.

- Where a distributor cannot or does not wish to provide the program, Hydro One will deliver in the program in the LDC's service territory on behalf of the Trust.

17. How will the Affordability Fund program be marketed?

- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

- Given the targeted nature of the program, a broad province-wide marketing campaign would not be an effective way to spend marketing funds.

- It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers. Eligible customers will be identified by electricity distributors.

18. How will you evaluate the success of the Affordability Fund?

- Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation.

- The Affordability Fund Trust is required to provide the Ministry of Energy with details on a quarterly and annual basis. Information required includes:
    - Amounts disbursed by the AFT to Electricity Distributors, and in aggregate;
    - Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor;
    - Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT; and
    - Electricity Distributor and customer feedback and lessons learned.

19. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

LINKAGE QUESTIONS

20. How does the Affordability Fund augment existing rate mitigation and conservation initiatives?

- Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

- Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

- To help electricity consumers across the province achieve cost savings, the government implemented the Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

21. How will the programs compare with the existing Home Assistance Program?

- The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- The Fund includes additional measures such as block heater timer, solar attic fan, and air source heat pumps. Since some measures may have greater impact in certain areas of the province, e.g. block heater timer, air source heat pump, LDCs have the flexibility to select from a list of available measures that can maximize the energy savings opportunities for their customers.

- Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure while eligibility for the Affordability Fund is based on the electricity affordability burden.

    - The electricity affordability burden is the ratio of the utility ‘asked to pay amount’ divided by the ‘net household income’.
    - Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

- The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from electricity rates.

22. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

  Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.
- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

23. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

- A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure

investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

- On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

24. What happens to unspent funds?

- It is expected that the funds through the Fund will be deployed within two years of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

- The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustees would identify one or more Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

25. Does the Ministry have the ability to claw-back funds?

- The TPA includes claw-back provisions to recover funds not used for the intended purposes.

RE_ Updated for ADM approval_ SCOPA materials.pdf

From:	Sermat-Harding, Kaili (ENERGY)
To:	Kitchen, Matthew (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	RE: Updated for ADM approval: SCOPA materials
Date:	February 26, 2018 5:41:21 PM
Attachments:	AFT SCOPA BN Feb 26 2018 ksh.docx

From: Kitchen, Matthew (ENERGY)
Sent: February 26, 2018 5:00 PM
To: Sermat-Harding, Kaili (ENERGY)
Cc: Edwards, Matthew (ENERGY)
Subject: Updated for ADM approval: SCOPA materials

Kaili:

Attached, please find CEEB's updated SCOPA materials – (1) Top Issues and (2) Numbers at a Glance.

CEEB prioritized these two documents; updated QAs to follow later today.

Matt

From: Schwab-Pflug, Emma (ENERGY)
Sent: February 26, 2018 4:32 PM
To: Kitchen, Matthew (ENERGY)
Cc: Syed, Usman (ENERGY); Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Matt, see attached to address Kaili's comments, all edits tracked. QAs to follow.
Thanks, Emma

From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 2:51 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Please find enclosed the 'by the numbers' and Issues note. I am working on the QAs now.

Thanks,
Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)

Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,
Emma

From: Kitchen, Matthew (ENERGY)
Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)

Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs
QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

AFT SCOPA BN Feb 26 2018 ksh_1.pdf

SCOPA 2018 AFT NOTE

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors ~~and representatives of social service organizations~~, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately ~~more than~~ 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.
- The table below outlines the Board of Trustees for the Affordability Fund Trust.

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister) (non-voting)

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- An interim Advisory Committee was established by the Ministry of Energy to make recommendations to the Original Trustee regarding the appointments of the Board of Trustees. The Committee acted independently to appoint the Board of Trustees. Committee members were selected because they possessed relevant knowledge and experience to identify and evaluate suitable replacement Trustees. Advisory Committee members were:
    - Brian Bentz (CEO, Alecta Utirlities)
    - Bryce Conrad (CEO, Hydro Ottawa)
    - Robert Mace (CEO, Thunder Bay Hydro)
    - Ferio Pugliese (EVP Customer Care & Corporate Affairs, Hydro One)
    - Terry Young (VP Conservation and Corporate Relations, IESO)
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). ENERGY is also represented on the Board of Trustees as a non-voting member~~observer~~.

xxx~~Trustees represent a geographical cross section of the Province and thereby avoid any perception of favouritism. The Trust was established through a TPA.~~

- ~~The TPA included terms for Hydro One to establish a non-controlled independent Trust to administer and distribute funds to LDCs across the province on the basis of principles established by the Province and implemented at the discretion of the Trustees~~

Commented [KM(1]: Insert bullet(s) on now Trust was established and appointed (e.g. intern group with HO, etc.)

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How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

- ~~Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.~~

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), at no or minimal cost, such as:
    - Energy-saving light bulbs (LEDs)

- Power bars
- Energy-efficient window air conditioners
- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $260 to over $6,000 per customer (including air source heat pumps).

- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

~~Table 1: Board of Trustees for the Affordability Fund Trust~~

~~Organization~~	~~Representative~~
~~United Way Ottawa~~	~~Michael Allen (President and CEO)~~

~~Neighbour to Neighbour Centre~~	~~Denise Arkell (Executive Director)~~
~~Thunder Bay Hydro~~	~~Tim Wilson (VP Customer and Information Services)~~
~~Hydro One~~	~~Warren Lister (VP Customer Service)~~
~~Alectra~~	~~Raegan Bond (VP Conservation and Demand Management)~~
~~Ministry of Energy~~	~~Kaili Sermat-Harding (Assistant Deputy Minister)~~

- Hydro One has played an important role in facilitating the establishment of the Trust, and ~~will continue~~is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

- The ~~current~~ TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

Commented [KM(2]: Check document to ensure tense is correct/consistent.

Commented [RO(3R2]: Resolved

CABINET REPORT BACK

- ENERGY ~~had been~~was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.

- ENERGY's first report back to TB/MBC through the PRRT process was in October 201~~8~~7 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.

    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.

- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.

- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

RE_ Urgent - SCOPA Chapter 3 .pdf

From:	Lightbody, Ava (ENERGY)
To:	Rehob, James (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	RE: Urgent - SCOPA Chapter 3
Date:	March 5, 2018 6:22:54 PM
Attachments:	SCOPA Chapter 3 - March 5 - Tracked.docx
Importance:	High

Hi James,

Steen has provided some edits to our response, so would appreciate if you can review this one instead. The updated QA set is also attached for reference. This has become an urgent request so please return first thing in the morning as soon as possible. Much appreciated!

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

From: Lightbody, Ava (ENERGY)
Sent: March-05-18 5:47 PM
To: Rehob, James (ENERGY)
Cc: Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3

Hi James,

Hope you are well. We were asked to add the following question to the set of QAs for Public Accounts on chapter 3 of the AG report (it's also in the attached full set, for reference). This is our draft response, which we would appreciate if you could review – this was requested for tomorrow AM, so as soon as possible in the morning would be great. Feel free to get in touch with any questions or concerns as always.

Q. What are the powers of the OEB and IESO in the market rule review and amendment process under the Electricity Act, 1998 (EA)?

Under the EA, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

Under the EA, the OEB has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to IESO for further consideration. The OEB may also review and order an amendment to the market rules where the MSP reports on instances market power abuse.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

From: Cox, Hilary (ENERGY)
Sent: March-05-18 4:24 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: SCOPA Chapter 3

Further clarification.

From: Schlaepfer, Martin (ENERGY)
Sent: March 5, 2018 4:22 PM
To: Cox, Hilary (ENERGY); Nucciarone, Michael (ENERGY); Whytock, John (ENERGY)
Subject: RE: SCOPA Chapter 3

Sorry just to clarify the question comes from the fact that throughout the Summary Status Table we refer to the existing authorities under the Electricity Act. The Deputy wants the QA in the event he is asked what the existing authorities are.

Can we aim to have this sent up tomorrow am?

From: Schlaepfer, Martin (ENERGY)
Sent: March 5, 2018 4:06 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>; Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>
Subject: RE: SCOPA Chapter 3

Hi,

The Deputy just came by and asked for another QA. He would like to know what the legislative powers in the Electricity Act currently say about how market rules are approved.

Can you add that to the list?

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: March 5, 2018 3:33 PM
To: Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Whytock, John (ENERGY) <John.Whytock@ontario.ca>
Cc: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: RE: SCOPA Chapter 3

Thanks. I'm waiting for OEB edits and have staff starting to work on the OPG QA. I believe John is reviewing IESO's friendlies and I'm just waiting for Steen's approval on a slightly revised ICI friendly for us.

That should do it, right?

HC

From: Nucciarone, Michael (ENERGY)
Sent: March 5, 2018 3:31 PM
To: Cox, Hilary (ENERGY); Whytock, John (ENERGY)
Cc: Schlaepfer, Martin (ENERGY)
Subject: SCOPA Chapter 3

Hi there,

Following this afternoon's meeting, the Deputy has asked that any edits or additional materials for SCOPA be made for end of day to allow for him to review this evening.

Thanks,
Mike

SCOPA Chapter 3 - March 5 - Tracked_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
~~February 2018~~ March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

CONFIDENTIAL

- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

CONFIDENTIAL

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

CONFIDENTIAL

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

CONFIDENTIAL

Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~ of OEB, IESO, MSP and MACD

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants~~,~~ and impose~~s~~ sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of MSP and IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- and Reviewing tthe role and authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure potentialany abuse of the market rules is adequately addressed. in the market rule amendment process, particularly in instances of potential abuse of the market rules.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted isn our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

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Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

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- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

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The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in <u>additional</u> costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will

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schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

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Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

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The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The

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engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

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Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

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These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

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Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

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Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the

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size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

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Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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Rate Mitigation Implementation Group.pdf

From:	Feather, Adam (ENERGY)
To:	Smith, Mike (ENERGY); Wong, Elaine (ENERGY)
Cc:	Chander, Sunita (ENERGY); Smith, Mike (ENERGY)
Subject:	Rate Mitigation Implementation Group
Date:	October 10, 2017 6:19:00 PM
Attachments:	Action Items_ Sept 28_v2.docx 2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Evening All:

Please update the attached OFHP Matrix and Outstanding Business Issues list for this week's rate mitigation implementation group. Need back by 3pm tomorrow.

Thanks!

A.

Action Items_ Sept 28_v2_5.pdf

Action Items – September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
        - OPG has shared comments on the FAA letter. OPG advises that it requires the letter for its OPG Board meeting (September 29, 2017)
        - Fees and interest payments during the moratorium period regulations are underdevelopment. OPG advise that these are required when going back to rating agencies. Regulations are tracking to LRC on October 16
        - As part of the IESO/OPG Commercial Agreement process, IESO is working through its role going forward (e.g., recovery of funds, etc). To provide additional security to creditors, IESO is exploring a credit enhancement. IESO/OPG continues to work through details regarding a letter of credit

    - Business Item (OPG/IGS)
        - Items are tracking towards completition in Fall.

    - Provincial Protection and Assurances Agreement (OFA/OPG)
        - Term sheet approved. Final agreement is under development and needs to be finalized before going to market (i.e., November)

    - Fees, Interest Payments and FAA Letter (ENERGY)
        - Fees and interest payment regulations are under development and drafts have been circulated for comments (i.e., to OEB, OPG, IESO, MOF and OFA). Drafts will also be circulated to TBS/OPCD

2) Estimates
    - Ministry prepping for questions related to OFHP
    - IESO and OPG representative to attend to answer specifc questions

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

2017-09-27 Consolidated - OFHP Matrix - Week _31.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

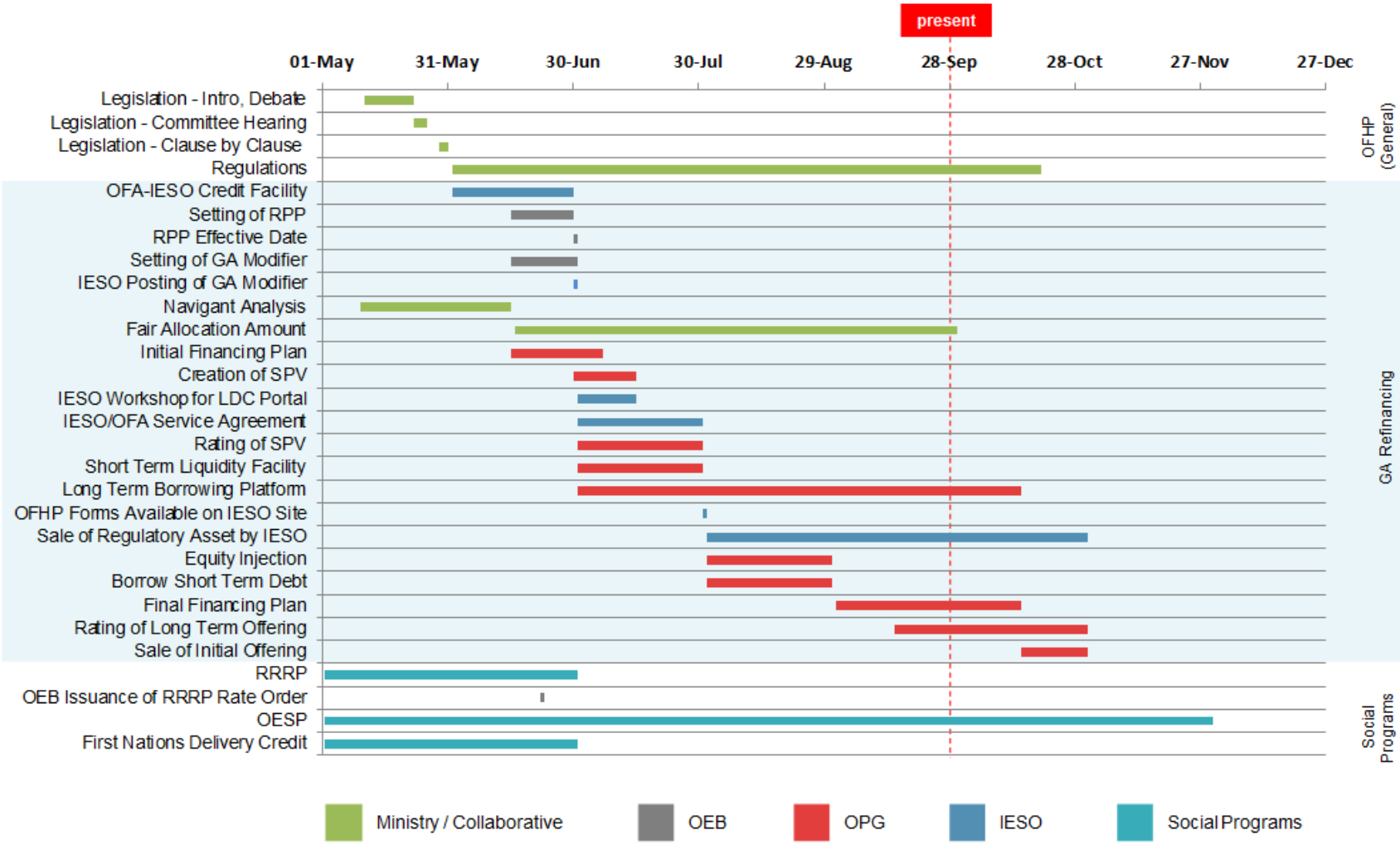
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017 Outstanding Business Issues - Week of S_26.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

Rate Mitigation Implementation Materials (1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Teliszewsky, Andrew (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY)
Subject:	Rate Mitigation Implementation Materials
Date:	September 14, 2017 5:46:31 AM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi Andrew,

Attached are the materials for this morning's meeting.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
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Agenda_Weekly Rate Mitig Implmentation Group__9.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)
    - FAA (ENERGY/OPG)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-08 Consolidated - OFHP Matrix - Week _25.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

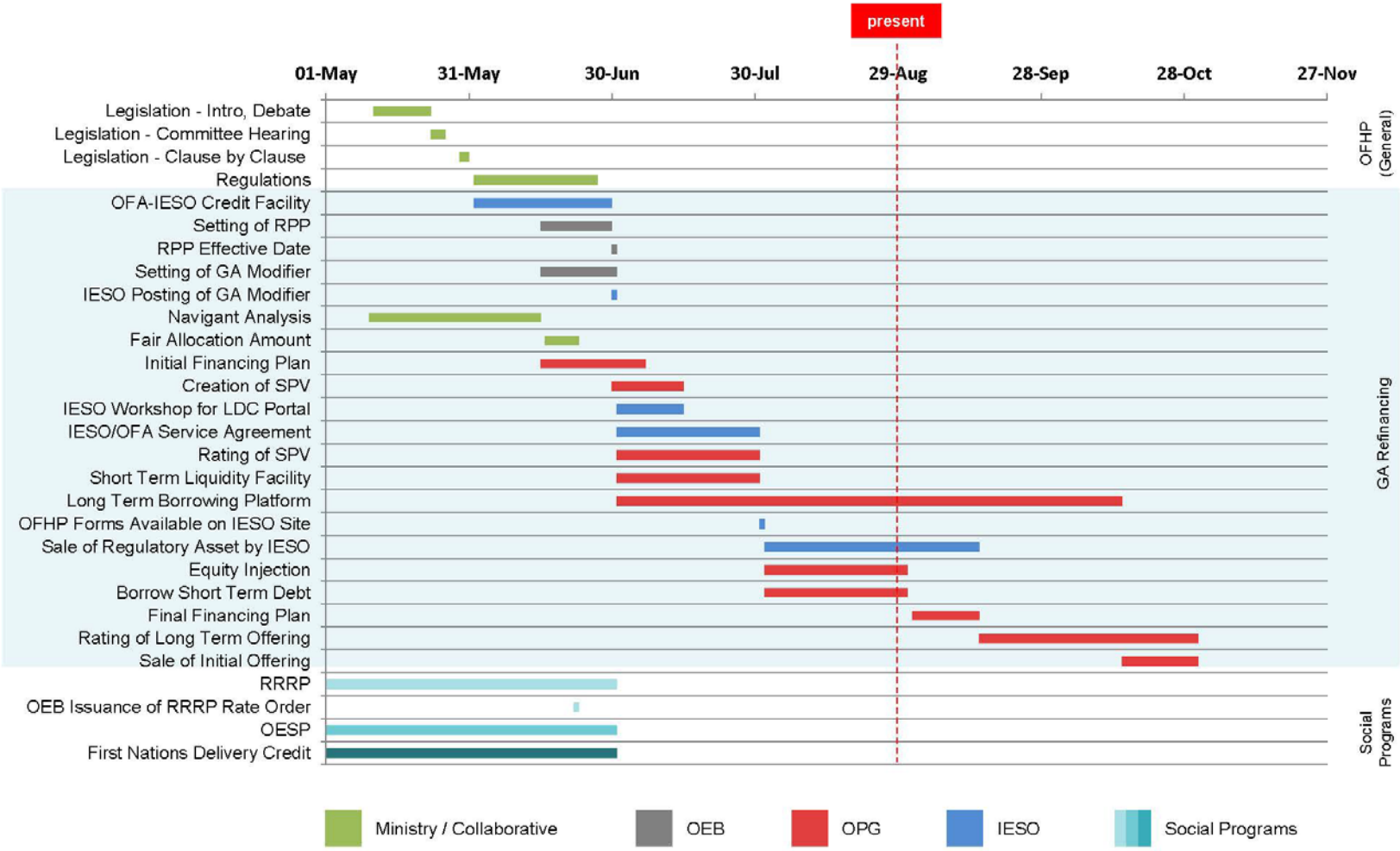
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_27.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Rate Mitigation Implementation Materials .pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Subject:	Rate Mitigation Implementation Materials
Date:	September 13, 2017 11:07:00 PM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi Deputy,

Attached are the materials for tomorrow morning's meeting.

Ok to share with MO and broader group?

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
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Agenda_Weekly Rate Mitig Implmentation Group__10.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)
    - FAA (ENERGY/OPG)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-08 Consolidated - OFHP Matrix - Week _26.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

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2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
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Item	Key Deliverables / Considerations	Timing / Next Steps
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Item	Key Deliverables / Considerations	Timing / Next Steps
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6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
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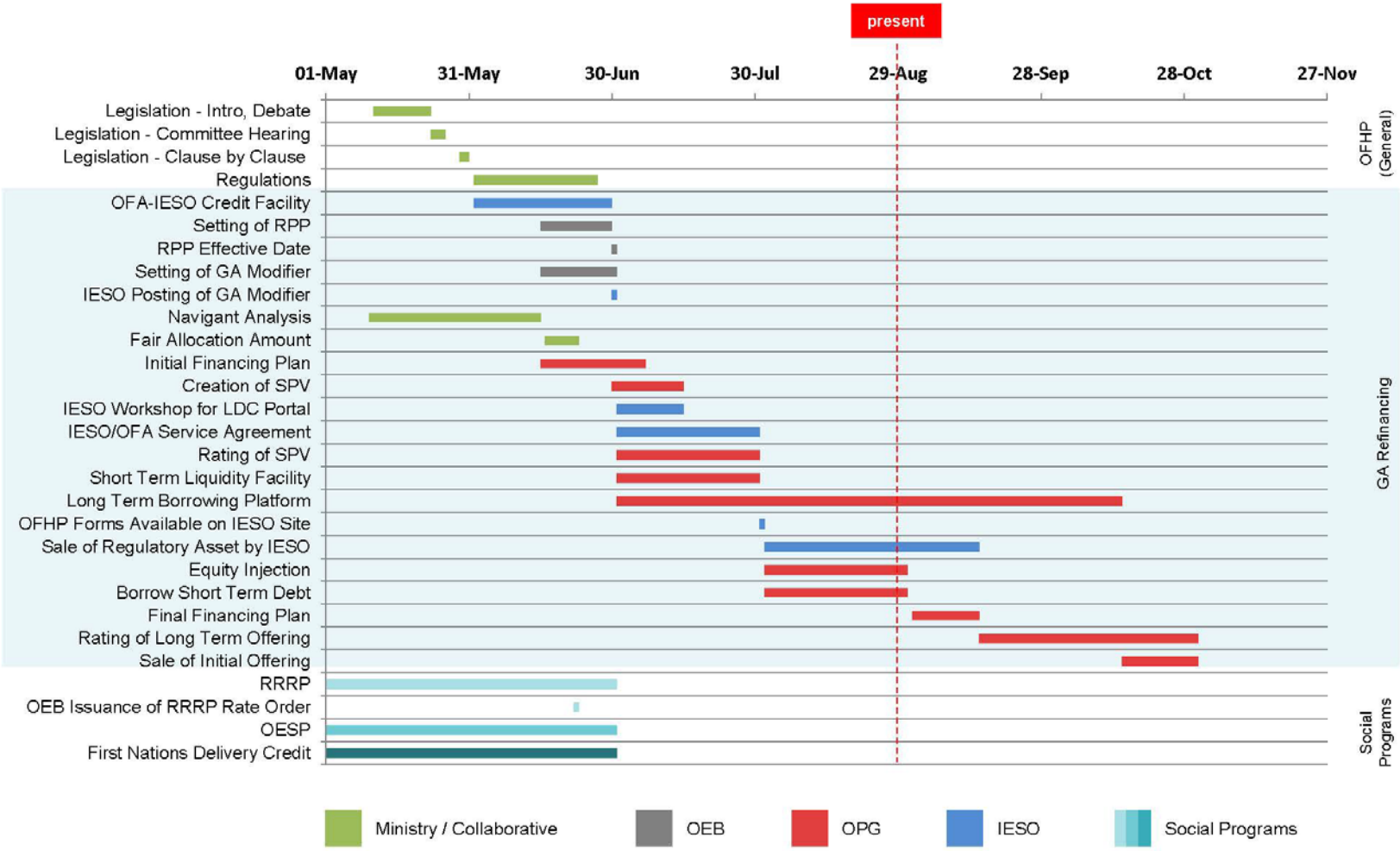
Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_28.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Rate Mitigation Implementation Materials.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Rate Mitigation Implementation Materials
Date:	October 31, 2017 9:19:00 AM
Attachments:	2017-10-27 OFHP Matrix - Week of Oct 30 - ENE.docx 2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX

Hi Steen –
Updated rate mitigation implementation materials for this week's group meeting.

HC

2017-10-27 OFHP Matrix - Week of Oct 30 - ENE_1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD ▪ ENE, OPG, and IESO considering amendments to 429/04 to enable recovery of such amounts from specified consumers. o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA have finalized proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Amendments have been consolidated with additional proposed amendments to O. Reg.	• October 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • November (TBD) – LRC for potential further amendments to O. Reg. 206/17 to address acceleration and negative FAA issues • November – OPG Financing Plan • Late November or early December – Initial debt issuance • December (TBD) – LRC for potential amendments to O. Reg. 429/04

Item	Key Deliverables / Considerations	Timing / Next Steps
	206/17 regarding the recovery of interest costs and Financial Services Manager (FSM) fees ('carrying costs') during the initial four-year period. ~~▪ Leg Counsel Draft being circulated~~ o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA have finalized proposed regulatory amendments to O. Reg. 206/17 (i.e., general regulation) which would enable carrying costs ~~fees and interest amounts~~ to be recovered during the Inflationary Cap period. Note: Related amendments to ~~No longer proposing to amend~~ GA regulation are no longer being proposed. ~~▪ Leg Counsel Draft being circulated~~ o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17. o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	~~• Will work on updated cost projections for PRRT submission~~ • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		

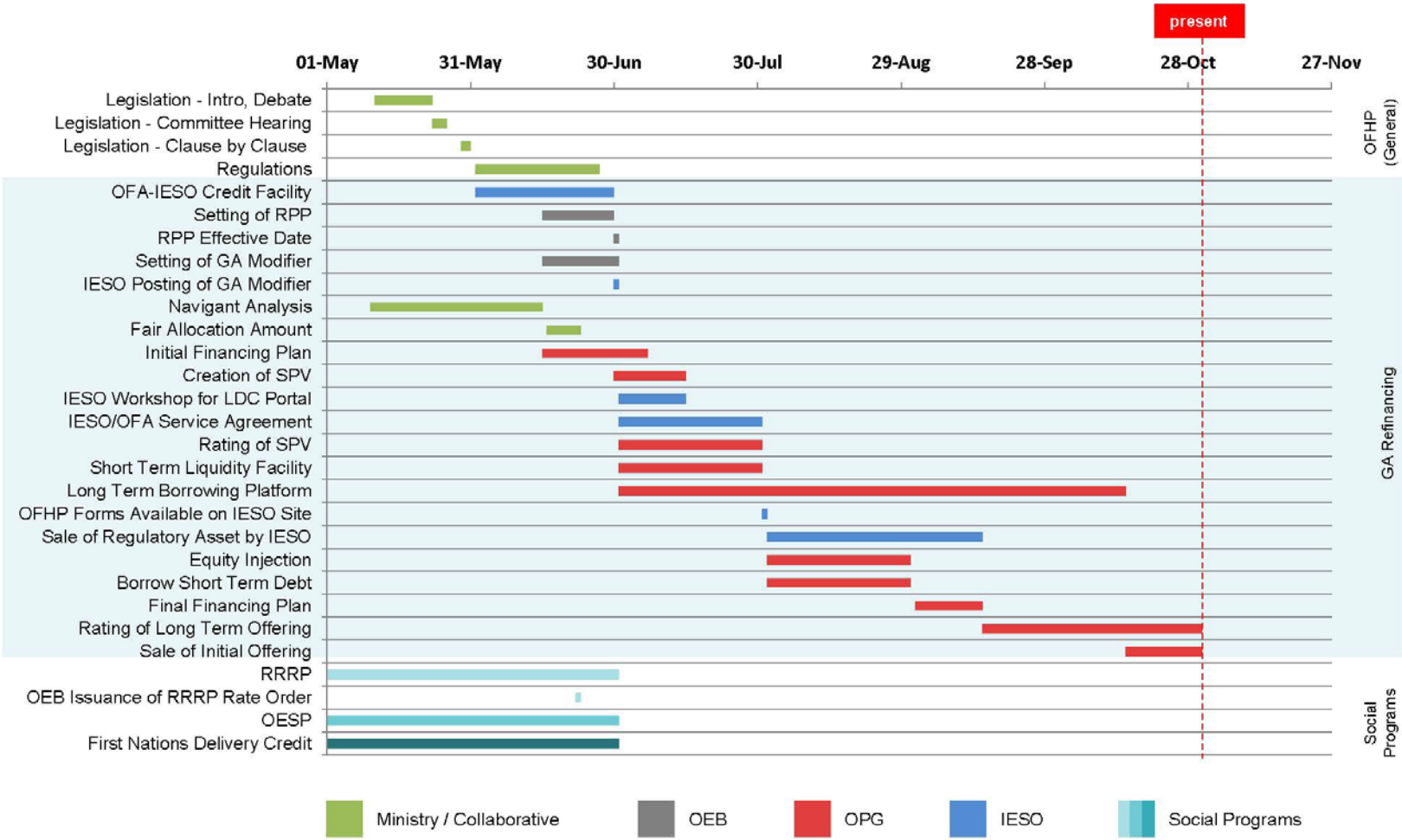
Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• ~~Will work on updated cost projection for PRRT~~ • ~~Hydro One to provide update on program enrollment week of October 2~~Receiving regular updates from H1 on enrollment •
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes,	Recent Action Items	~~**October 2017:**~~

Item	Key Deliverables / Considerations	Timing / Next Steps
CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	• ~~On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity~~ • ~~Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for review and approval by the Board of Trustees (have engaged Accenture to assist)~~ • ~~Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated~~ • ~~On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation~~ • ~~Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis~~ • ~~Hydro One convened meetings with a number of LDCs in late September to review program design details~~ • ~~Most recent Board meeting took place on October 5, 2017~~ • Oct. 12: Soft launch of microsite and 1-800 number. • Oct. 24 formal announcement in Hamilton involving the Minister of Energy. • As of Oct. 23, 66 applications from 6 LDCs processed through the AFT program. • On Oct. 24, the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions. • Next Trustees meeting is scheduled for November 2, 2017.	• ~~Soft launch of microsite Oct 12~~ • ~~Oct. 23 formal announcement involving the Minister~~ **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY ~~is~~ has amend~~ing~~ed the TPA with the Affordability Fund Trust to ~~request~~ require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ~~ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries~~ • ~~Third-party hired to undertake electronic search of records~~ • ~~IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG~~ • ~~AG attended special meeting of IESO Board on OFHP~~ • ~~AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment~~ • AG special report on OFHP and Government Response released October 17, 2017. • Search for records responding to AG request (emails, responsive documents) completed week of October 25.	• ~~Fall – Responding to AG Request (Ongoing)~~ • ~~Week of September 25 – Ministry is responding to draft AG special report on OFHP~~ • ~~TBD – Release date of AG special report~~ • TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • ~~Ministry reviewing a revised proposal from CME~~ •	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD)	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	<u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of O_11.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services, which will- account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.~~made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)~~	• ~~Draft Base Fee framework~~ • ~~Draft Variable Fee framework~~ • Amendments to Ontario Regulation 206/17 (General)	• ENE, OPG, OEB and OFA have been working to develop proposed regulatory amendments which would enable OPG to establish and charge fees in its role as FSM, provide a methodology for the calculation of those fees, and define the role of the OEB in reviewing and approving those fees.~~determine role of OEB in determining fees OPG charges~~ **Timing**: Proposed regulatory amendments~~ion~~ expected to be reviewed at October ~~16 /~~ 30 LRC ~~(TBD)~~

OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero	• Amendments to ~~Ontario~~ O. ~~Regulation~~ Reg. 206/17 (~~i.e., G~~general) ~~regulation). Note: No longer proposing to amend GA regulation~~	• ENE, ~~-~~OPG, IESO and OFA have been working to develop proposed regulatory amendments which would enable the FSM to recover fees and interest amounts from IESO ~~to be recovered~~ during the i~~I~~nflationary c~~C~~ap period, and would enable IESO to record such amounts in the variance account.~~.~~ **Timing**: Proposed regulatory amendments expected to be reviewed at October ~~16 /~~ 30 LRC ~~(TBD)~~
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg **Timing:** ~~ENE and OPG are considering tracking to~~These amendments are expected to be brought forward at the ~~the~~ November 20 LRC date
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** Amendments to O. Reg. 429/04 could track to an LRC date in December

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Rate Mitigation Implementation Meeting - Novemb...(1).pdf

From: Schlaepfer, Martin (ENERGY)

To: Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Colalillo, Sam (ENERGY); ""jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com)"; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)"; "Kim Marshall (Kim.Marshall@ieso.ca)"; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); "CROZZOLI Carlo -CBUSDEV&STRT"; Mayman, Gadi (OFA); "LEE John -TREASURY"; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll; "peter.gregg@ieso.ca"

Cc: Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); McLean, David (MOF); Foster, Robert (CAB); "jordan.penic@ieso.ca"; "catriona.king@opg.com"; Bungaro-Yemec, Francesca (ENERGY); Yordi, Samer (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; HAHN PARKER Janet -TREASURY; Christie, Tim (ENERGY); Thouin, Alena (ENERGY); Ue, Allison (TBS)

Subject: Rate Mitigation Implementation Meeting - November 23, 2017

Date: November 22, 2017 7:10:21 PM

Attachments: 2017 OFHP Matrix and Outstanding Business Issues - Week of Nov 20 DOCX _.docx
Agenda_Weekly Rate Mitig Implmentation Group_ Nov 22.docx
Technical Briefing Fair Hydro Plan OPG Financing Plan Nov 22.pptx

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Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

2017 OFHP Matrix and Outstanding Business Iss.pdf

Implementation of Ontario's Fair Hydro Plan
Week of November 20, 2017

Global Adjustment (GA) Refinancing – Business Issues / Implementation

Issue	Overview	Supporting Documentation	Timing / Next Steps
Provincial Support Agreements	• Province to provide contingent supports to enable structure	• Term Sheet • Change of Law Protection Agreement • Change of Law Process Agreement	• MOF / OPG / ENE to finalize Protection Agreement and Process Agreement based on Term Sheet approved by TB/CAB **Timing / Next Steps:** • Briefing of the ENERGY, MOF and TBS Ministers • Agreements to be finalized in late November or early December
OPG's Financing Plan / Market Activity	• OPG, as Financial Services Manager (FSM), to provide a Financing Plan in accordance with legislation, to evaluate the incurrence of funding obligations consistent with the FAA	• Minister's FAA letter to OPG	• OPG has provided a draft of the Financing Plan to ENERGY **Timing / Next Steps:** • OPG Board committee review and approval by the OPG Board (TBD) • OPG initial debt issuance is currently planned to proceed in December (TBD)
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • /MOU between OFA and Energy • Notice of Subscription • Amendment to Articles	• OPG to request Minister's signature on the Shareholder resolution. • OPG/ENE to sign Master Share Subscription Agreement • OFA / ENE to finalize monthly process and sign-off mechanism **Timing / Next Steps:** • Agreements to be signed by end of November

Issue	Overview	Supporting Documentation	Timing / Next Steps
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing / Next Steps**: • Fall (TBD) • OPG to provide additional details
PILs Exemption	• The beneficiary of the OFHP Trust would be subject to tax under the payments in lieu of taxes (PILs) regime under the *Electricity Act, 1998* (EA), and would pay PILs to the Ontario Electricity Financial Corporation (OEFC) • Province to mitigate cost to ratepayers by minimizing PILs payable by the Trust beneficiary • A regulation under the EA is required to exempt the beneficiary from PILs • OPG has advised that a comfort letter signed by the Minister is required	• Comfort Letter • Tax Regulation	• MOF is working to complete comfort letter to OPG and to finalize the regulation **Timing / Nexts Steps:** • Regulation expected to proceed to LRC in December 2017 (TBD)
OPG / IESO Commercial Agreement	• OPG and IESO to enter in to commercial agreements governing the Financing Entity purchase of the regulatory assets (i.e., the Master Transfer and Servicing Agreement, Security Agreement and Acknowledgement and Indemnity Agreement)		• OPG and IESO working to finalize Agreement **Timing / Next Steps:** • The draft commercial agreements to be reviewed by IESO Board on November 22 • Further changes may be required pending the completion of the rating process

Ontario's Fair Hydro Plan – Implementation Matrix of Other Items

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
2) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
3) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
4) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meetings are scheduled for November 30 and December 14, 2017 • The Trust expects to enter into agreements with interested electricity distributors starting mid to late December 2017 (Hydro One will deliver the program in service areas of those distributors who do not apply)	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Early 2018:** • ENERGY can apply for additional funds through an in-

Item	Key Deliverables / Considerations	Timing / Next Steps
		year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
5) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
6) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
7) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing	• Continue this work as part of 2017 LTEP implementation

Agenda_Weekly Rate Mitig Implmentation Group__11.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
November 23, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Support Agreement (OFA / OPG / ENERGY)
    - OPG's Financing Plan / Market Activities (OPG)

2) Technical Briefing (All)

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

Technical Briefing Fair Hydro Plan OPG Financ.pdf

Fair Hydro Plan
OPG's Role and Financing Plan
Technical Briefing

December, 2017

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DRAFT

ONTARIO POWER GENERATION

Role of Ontario Power Generation (OPG) in Global Adjustment Refinancing

- **The *Ontario Fair Hydro Plan Act, 2017*, identifies OPG as the Financial Services Manager (FSM) to develop the financing plans and manage the financing entity (i.e. Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.**
  - OPG has extensive experience and expertise in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.
  - In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.
  - OPG has established the Trust.
- OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the Used Fuel Segregated Fund, and $15 billion in pension funds.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space [NTD: insert target market] for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

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ONTARIO POWER GENERATION

OPG Recent Financing Activities

- On September 12, 2017, OPG filed a $2 billion short form shelf prospectus to facilitate corporate borrowing through a medium term note program over the next two years. The net proceeds from borrowing under this prospectus will be used for general corporate purposes and the financing of OPG's subordinated debt investment in the Fair Hydro Plan

- In October, OPG issued $500 million of senior notes payable under the Medium Term Note Program. The notes have a coupon interest rate of 3.32 percent and an effective rate of 3.43 percent, payable semi-annually with a maturity date of October 4, 2027
- Notes issued exceeded the original OPG target of $300 million because of the strong reception from investors.

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Fair Hydro Trust Financing

- On November 22, OPG's Board of Directors approved OPG's plan for participation in the Fair Hydro Plan, and to act as the Financial Services Manager.
  - OPG has established a holding company FHP 2017 Inc. which will own and control the Trust.

- To date, $1 billion in Global Adjustment payments have been deferred under the Fair Hydro Plan and held by the Independent Electricity System Operator (IESO).
- The Fair Hydro Trust purchased this asset in December. The initial $1 billion in investment assets purchased by the Trust was financed as follows:
  - Borrowing by the Trust through senior debt from capital markets $510 million (51%)
  - Equity injection by the Province $440 million (44%) invested as subordinated debt in the Trust
  - OPG subordinated debt in the Trust $50 million (5%) already raised through the initial borrowing

- In subsequent months the Trust will make a decision on the purchase of subsequently generated assets (approximately $200 million per month) and any required financing.
- A second round of borrowing will take place in Q1 - 2018 to continue managing the refinancing of the Global Adjustment.
- [NTD: Placeholder about success/level of interest in the offering]

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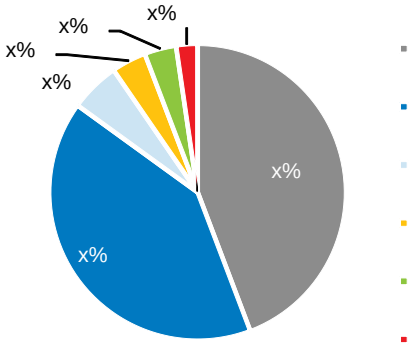
Debt Offering Summary

TERMS SUMMARY

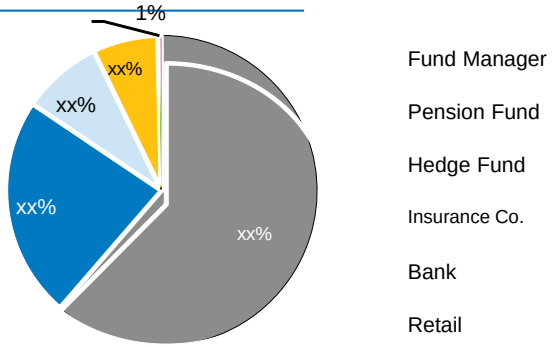
Issuer	Fair Hydro Trust .
Pricing Date	xx-Dec 17
Settlement Date	xx-Dec-17
Ratings (DBRS/Moodys)	xxx
Amount	$xxx million
Coupon	x.xx%
Coupon Dates	xxx and xxx
Maturity Date	x-xxx-xx
Spread vs. Benchmark	+xx bps (credit: +xx bps, curve: +xx bps)
GoC Curve	GoC x.xx% due xx, xxxx GoC x.xx% due xx, xxxx
GoC Benchmark	GoC x.xx% due xx, xxxx
Benchmark Price/ Yield	$xx.xx / x.xx%
Price	$xxxx
Yield	x.xxx%
Syndicate	xxxx

1. Co-Lead Agent & Bookrunner.

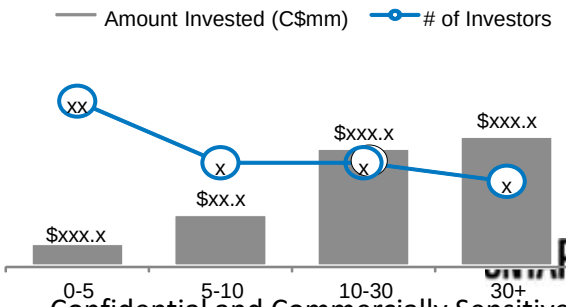
INVESTOR LOCATION



INVESTOR TYPE



ALLOCATION HISTOGRAM[1]



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Reporting

- Through OPG's ownership and control over the key activities of the Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.
- OPG will report the financial results of the Trust's operations in its annual report and 4th Quarter financial results. These results will be released by OPG in early March 2018.
- The Trust's activities will be reported as a separate segment in OPG's overall results as follows:
  - Regulated – Nuclear Generation
  - Regulated - Hydroelectric
  - Contracted Generation Portfolio
  - Regulated - Nuclear Waste Management
  - Services, Trading, and Other Generation
  - Fair Hydro Trust
- The Trust's financial results will also be reported directly to the Province as OPG's shareholder.

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Rate Mitigation Implementation Meeting - Novemb....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Nelms, Scott (MOF); ""jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com)"; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)"; "Kim Marshall (Kim.Marshall@ieso.ca)"; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); "CROZZOLI Carlo -CBUSDEV&STRT"; Mayman, Gadi (OFA); "LEE John -TREASURY"; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc:	Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); "jordan.penic@ieso.ca"; "Turnevicius, Lorraine"; "catriona.king@opg.com"; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF); HAHN PARKER Janet -TREASURY
Subject:	Rate Mitigation Implementation Meeting - November 1, 2017
Date:	October 31, 2017 3:52:22 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 31.docx

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Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

2017 Outstanding Business Issues - Week of O_12.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

2017-10-27 OFHP Matrix - Week of Oct 31_Clean_4.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 30, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

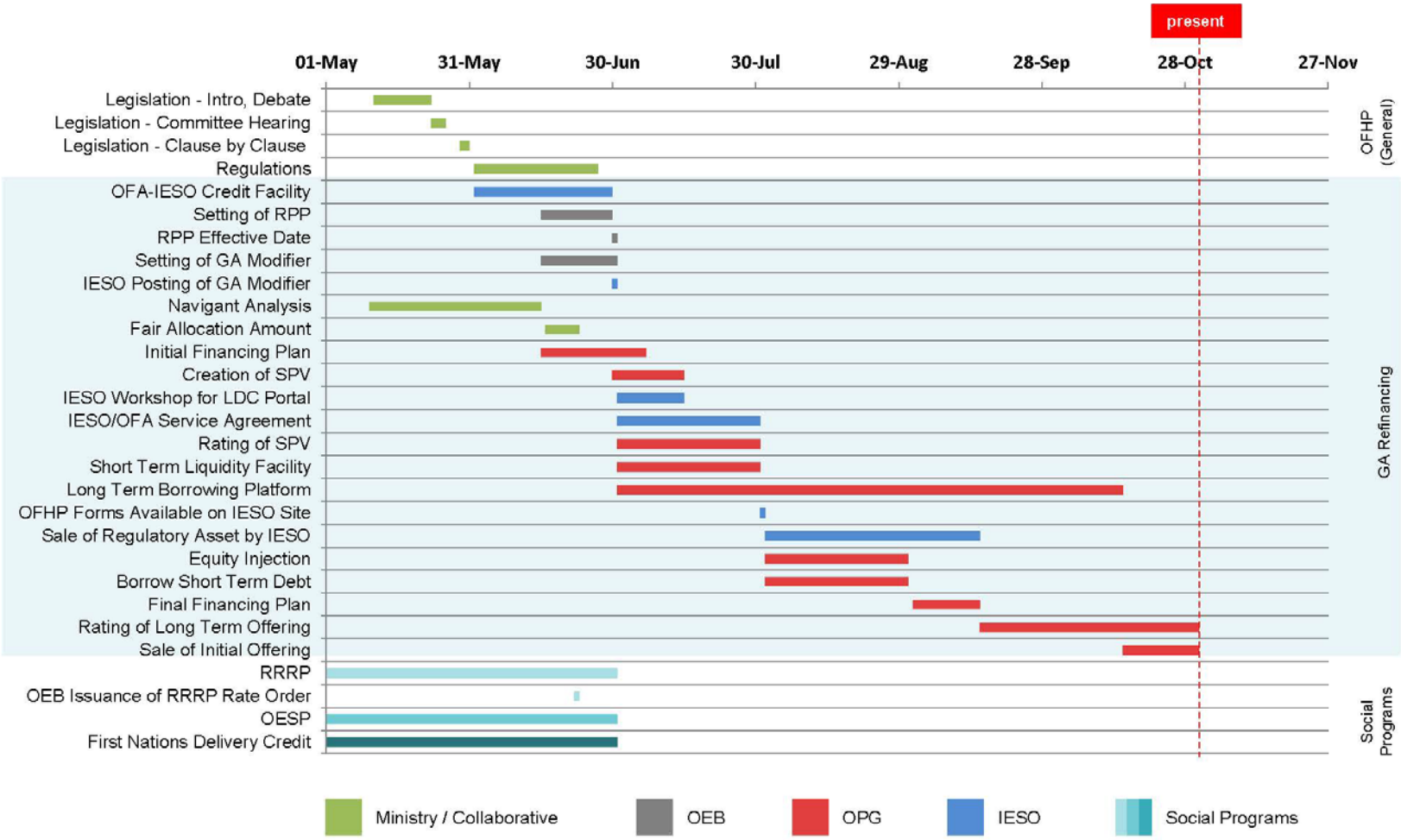
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Agenda_Weekly Rate Mitig Implmentation Group__12.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
November 1, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Protection and Assurances Agreement (OFA / OPG)
    - Commercial Agreement (OPG/ IESO)
    - OPG's Financing Plan (OPG)
    - Regulatory Amendments (ENERGY)

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

Rate Mitigation Implementation Meeting - Octobe....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Chander, Sunita (ENERGY); Nelms, Scott (MOF); ""jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com)"; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)"; "Kim Marshall (Kim.Marshall@ieso.ca)"; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); "CROZZOLI Carlo -CBUSDEV&STRT"; Mayman, Gadi (OFA); "LEE John -TREASURY"; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc:	Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); "jordan.penic@ieso.ca"; "Turnevicius, Lorraine"; "catriona.king@opg.com"; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF)
Subject:	Rate Mitigation Implementation Meeting - October 12, 2017
Date:	October 11, 2017 8:24:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 9_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 11.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

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Hi everyone,

Please find attached the material for discussion tomorrow.

Thanks,
Martin

2017 Outstanding Business Issues - Week of O_13.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

Agenda_Weekly Rate Mitig Implmentation Group__13.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 11, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees and Interest Payments (ENERGY)
    - Letter of Credit (ENERGY / IESO / OPG)

2) Report

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-27 Consolidated - OFHP Matrix - Week _32.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

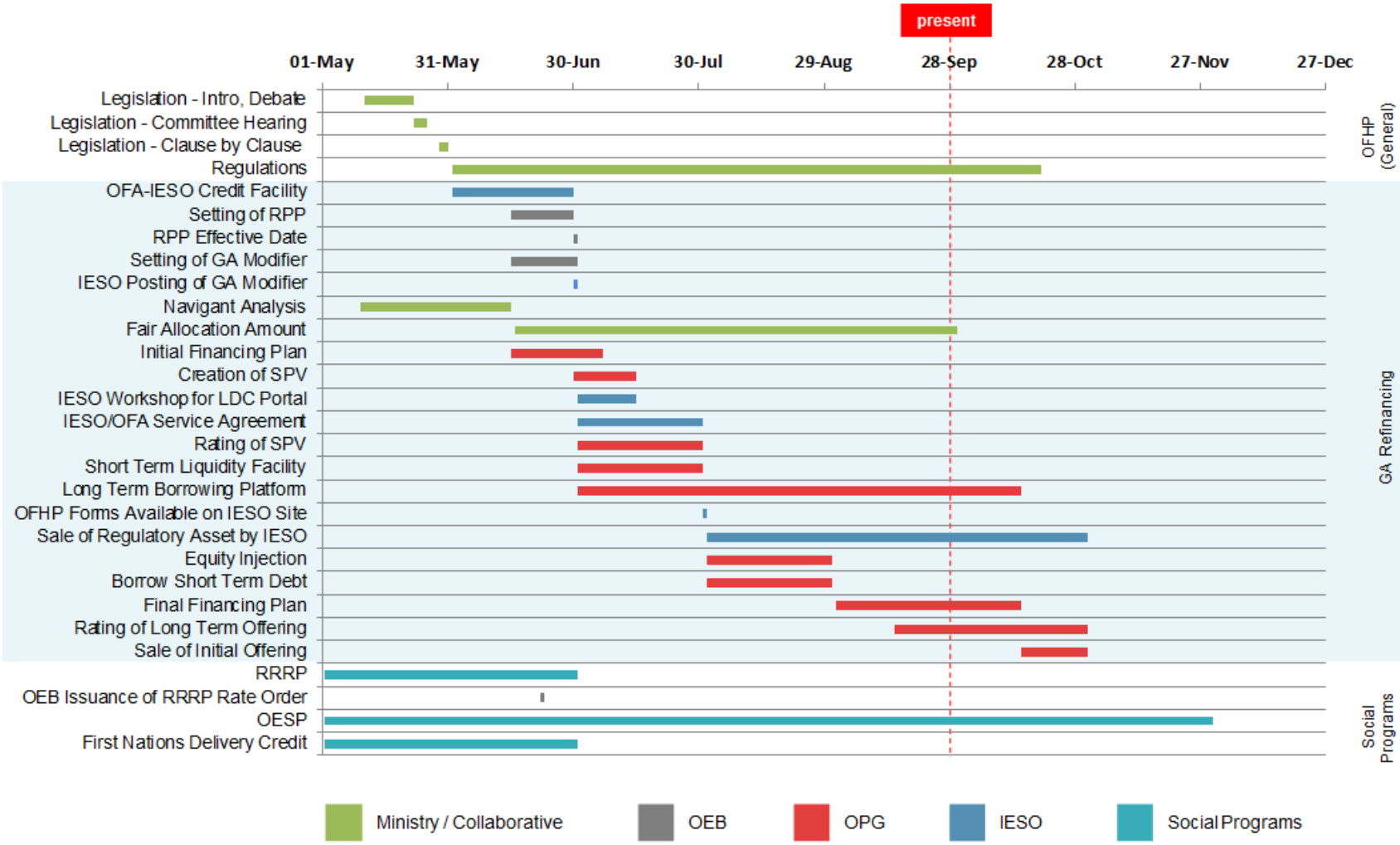
Item	Key Deliverables / Considerations	Timing / Next Steps
	Reg. 206/17 (i.e., general regulation) which would enable fees and interest amounts to be recovered during the Inflationary Cap period. Note: No longer proposing to amend GA regulation ▪ Leg Counsel Draft being circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Rate Mitigation Implementation Meeting - Septem...(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Talwar, Shruti (ENERGY); Nelms, Scott (MOF); ""jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com)"; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)"; "Kim Marshall (Kim.Marshall@ieso.ca)"; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); "CROZZOLI Carlo -CBUSDEV&STRT"; Mayman, Gadi (OFA); "LEE John -TREASURY"; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc:	Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); "jordan.penic@ieso.ca"; "Turnevicius, Lorraine"; "catriona.king@opg.com"; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF)
Subject:	Rate Mitigation Implementation Meeting - September 28, 2017
Date:	September 27, 2017 8:02:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx Agenda_Weekly Rate Mitig Implmentation Group_ Sept 28.docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hi everyone,

Please find attached the material for discussion tomorrow morning.

Thanks,
Martin

2017-09-27 Consolidated - OFHP Matrix - Week _33.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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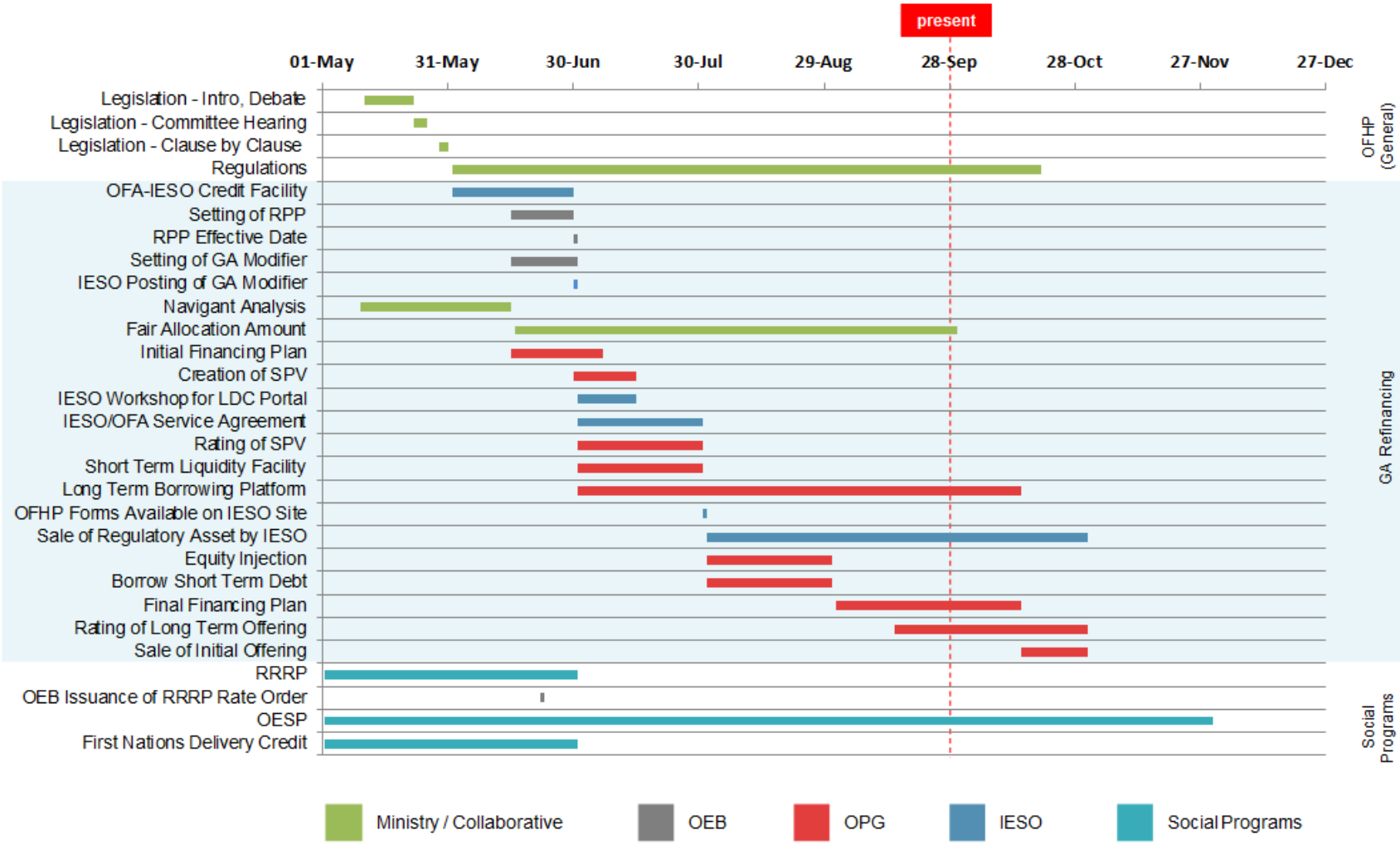
Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Agenda_Weekly Rate Mitig Implmentation Group__14.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Business Item (OPG/IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees, Interest Payments and FAA Letter (ENERGY)

2) Estimates

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017 Outstanding Business Issues - Week of S_29.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

Rate Mitigation Implementation Meeting - Septem....pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Hume, Steen (ENERGY); Christie, Tim (ENERGY); Nalasco, Adrian (ENERGY); Sermat-Harding, Kaili (ENERGY); Calwell, Carolyn (ENERGY); Nelms, Scott (MOF); ""jeffrey.lyash@opg.com" (jeffrey.lyash@opg.com)"; "HARTWICK Ken -FINANCE (ken.hartwick@opg.com)"; "Kim Marshall (Kim.Marshall@ieso.ca)"; Thompson, Scott (MOF); Angus, Helen (TBS); Davidson, Steven (CAB); "CROZZOLI Carlo -CBUSDEV&STRT"; Mayman, Gadi (OFA); "LEE John -TREASURY"; Hughes, Karen (TBS); Veinot, Cindy (TBS); Michael Boll
Cc:	Imbrogno, Serge (ENERGY); Teliszewsky, Andrew (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY); MacIntyre, Kyle (TBS); McLean, David (MOF); Foster, Robert (CAB); "jordan.penic@ieso.ca"; "Turnevicius, Lorraine"; "catriona.king@opg.com"; Bungaro-Yemec, Francesca (ENERGY); Feather, Adam (ENERGY); Cox, Hilary (ENERGY); Edwards, Matthew (ENERGY); Laughton, Patrick (TBS); David Barrett; Katona, Keley (MOF)
Subject:	Rate Mitigation Implementation Meeting - September 14, 2017
Date:	September 14, 2017 5:47:00 AM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_Sept 14.docx 2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi everyone,

Please find attached the material for discussion this morning.

Thanks,
Martin

Agenda_Weekly Rate Mitig Implmentation Group__15.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 14, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Supporting Agreement (OFA/OPG)
    - Business Item (OPG/IGS)
    - Fees (ENERGY)
    - FAA (ENERGY/OPG)

2) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-08 Consolidated - OFHP Matrix - Week _27.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Mid-September – Minister's Fair Allocation Amount letter • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

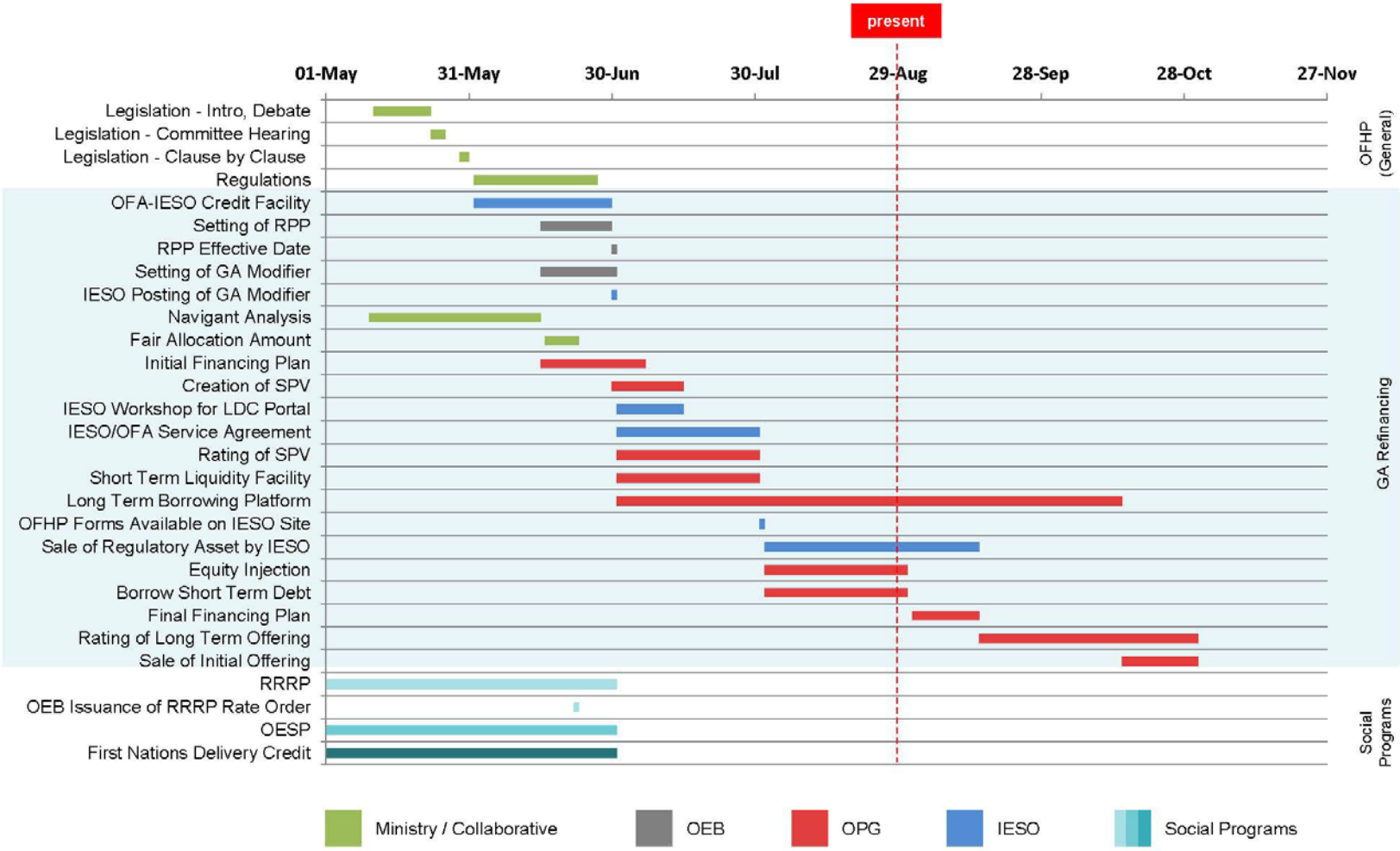
Item	Key Deliverables / Considerations	Timing / Next Steps
	– MOF/Tax Policy working on comfort letter re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value o ENERGY has shared draft FAA model with OPG	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design) • Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_30.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Rate Mitigation Implementation Meeting Materials(1).pdf

From: Edwards, Matthew (ENERGY)
To: Sermat-Harding, Kaili (ENERGY)
Subject: Rate Mitigation Implementation Meeting Materials
Date: September 27, 2017 2:22:00 PM
Attachments: 2017-09-27 Consolidated - OFHP Matrix - Week of September 11 CEEB v4.docx

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Kaili,

See attached CEEB updates to the OFHP Matrix for use tomorrow morning.

ESP has asked for this ASAP.

Thanks,

Matt

From: Syed, Usman (ENERGY)
Sent: September 27, 2017 2:20 PM
To: Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>
Cc: Schwab-Pflug, Emma (ENERGY) <Emma.Schwab-Pflug@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Here you go…

From: Schwab-Pflug, Emma (ENERGY)
Sent: September 27, 2017 1:54 PM
To: Syed, Usman (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Usman, see revised attached included A-Fund logo – have written "ENERGY is proposing…" in case DM is not yet briefed on this. Thanks, Emma

---

From: Syed, Usman (ENERGY)
Sent: September-27-17 10:06 AM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Thanks, I think we should add that we are planning to amend the TPA to ensure use of Ontario logo so that DM is aware that we will be looking for his signature soon…

- Usman

From: Schwab-Pflug, Emma (ENERGY)
Sent: September 27, 2017 9:54 AM
To: Syed, Usman (ENERGY)

Cc: Qureshi, Musab (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Usman, please see attached and below. We considered adding use of the logo, but thought we would wait for the BN to go up first. Can add if preferred. Thanks, Emma

---

From: Qureshi, Musab (ENERGY)
Sent: September-27-17 9:50 AM
To: Schwab-Pflug, Emma (ENERGY)
Subject: RE: Rate Mitigation Implementation Meeting Materials

Emma,

See attached for Afund updates to the OFHP matrix. Nothing for us in the Outstanding Business Issues note

Musab

From: Schwab-Pflug, Emma (ENERGY)
Sent: September-26-17 5:34 PM
To: Qureshi, Musab (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Musab, could you take a quick look tomorrow morning for any updates? I don't think we need to mention use of the logo yet, we'll send up the BN on this first.

Thanks,
Emma

From: Edwards, Matthew (ENERGY)
Sent: September-26-17 3:52 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: Rate Mitigation Implementation Meeting Materials

Do we have any updates to the A-Fund content?

From: Cox, Hilary (ENERGY)
Sent: September 26, 2017 3:44 PM
To: Christie, Tim (ENERGY) <Tim.Christie@ontario.ca>; Cayley, Daniel (ENERGY) <Daniel.Cayley@ontario.ca>; Feather, Adam (ENERGY) <Adam.Feather@ontario.ca>; Edwards, Matthew (ENERGY) <Matthew.Edwards@ontario.ca>; Thouin, Alena (ENERGY) <Alena.Thouin@ontario.ca>; Katona, Keley (MOF) <Keley.Katona@ontario.ca>
Subject: FW: Rate Mitigation Implementation Meeting Materials

Hi All –
Any updates to Rate Mitigation Implementation materials for this week's group meeting?

HC

2017-09-27 Consolidated - OFHP Matrix - Week _34.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th – OFA / OPG / MOF / ENERGY / OPCD working to finalize draft term sheet for Protection agreement (to be included in TB submission) – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ Draft received from OPG. LSB to share with OEB and Legislative Counsel. o Interest/Fees Collection During the Inflationary Cap	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting • October 14 – LRC for interest/fees collection • Late November 2017 – OPG

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Item	Key Deliverables / Considerations	Timing / Next Steps
	Period ▪ Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o ~~(OPG, IESO and Energy to work through approach)~~ o ~~Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium~~ o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Final decision required on business issues before finalizing model. o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re: PILs for OPG – ~~IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust)~~ • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ o ~~ENERGY has shared draft FAA model with OPG~~ o	Financing (TBD)
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.

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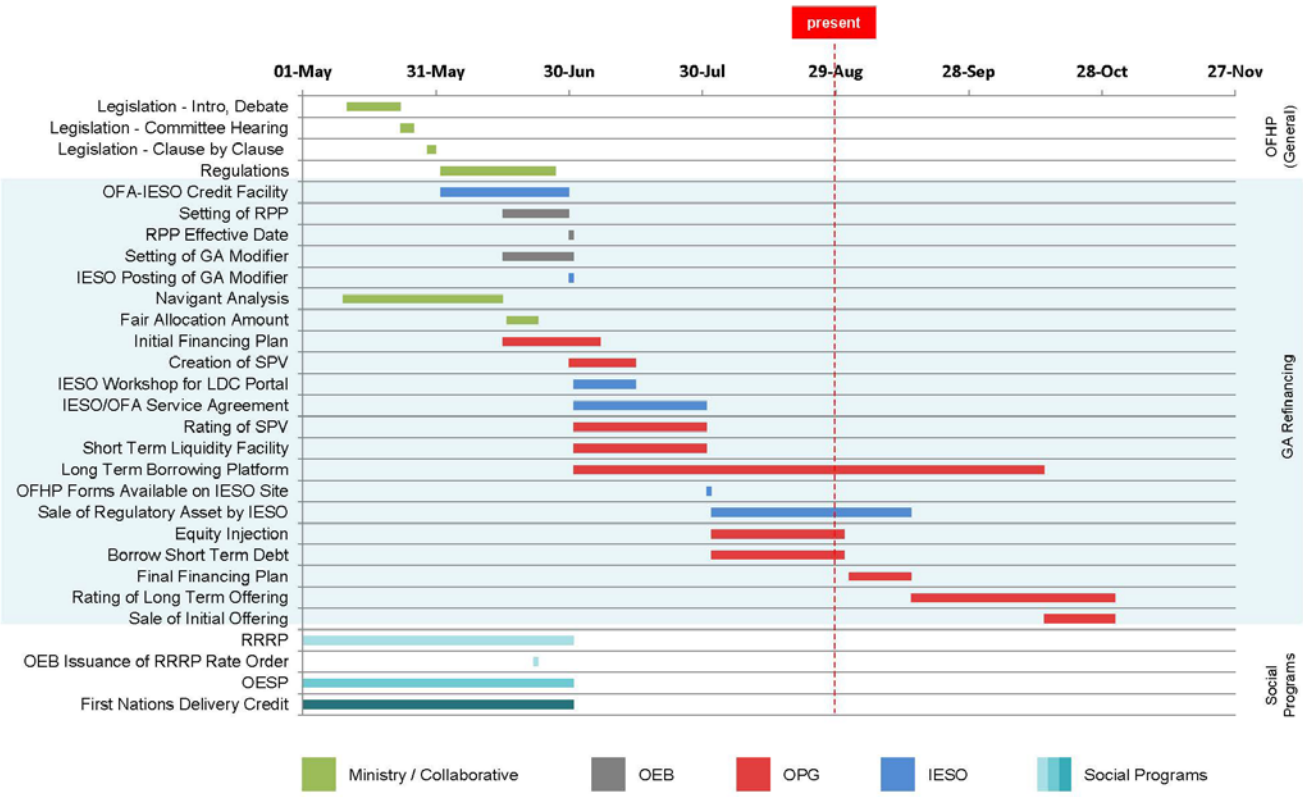
Item	Key Deliverables / Considerations	Timing / Next Steps
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution • SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	• Week of August 7 – follow-up with CRA on proposed wet signature solution
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of	**~~September~~ October 2017:** Target for program launch **~~Q2 2017-2018~~Fall 2017:** • The Trustees are considering submitting a proposal to

Item	Key Deliverables / Considerations	Timing / Next Steps
	Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated. • ~~Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants)~~ • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program ~~as soon as possible~~in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • ~~Trustees have agreed to Hydro One's role as administrator~~ • ~~Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)~~ • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund. • ~~Trustees to brief Ministry on August 28~~	MCSS for the use of Ontario 211 services for the Affordability Fund. • ENERGY is proposing to amend TPA with the Affordability Fund Trust~~ees~~ to request use of the Ontario logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year ~~2018-19~~ ~~PRRT~~ TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records	• Summer – Responding to AG Request (Ongoing)

Item	Key Deliverables / Considerations	Timing / Next Steps
	• TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Rate Mitigation Implementation Meeting Materials.pdf

From:	Armstrong, Hillary (ENERGY)
To:	Hume, Steen (ENERGY); Sermat-Harding, Kaili (ENERGY); Nelms, Scott (MOF); Calwell, Carolyn (ENERGY); Thouin, Alena (ENERGY)
Cc:	Cox, Hilary (ENERGY); Feather, Adam (ENERGY); Edwards, Matthew (ENERGY); Schlaepfer, Martin (ENERGY)
Subject:	Rate Mitigation Implementation Meeting Materials
Date:	September 8, 2017 7:48:00 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi there,

Attached are the materials for Monday's Rate Mitigation Implementation meeting.

Thanks,
Hillary

2017-09-08 Consolidated - OFHP Matrix - Week _28.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re:	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

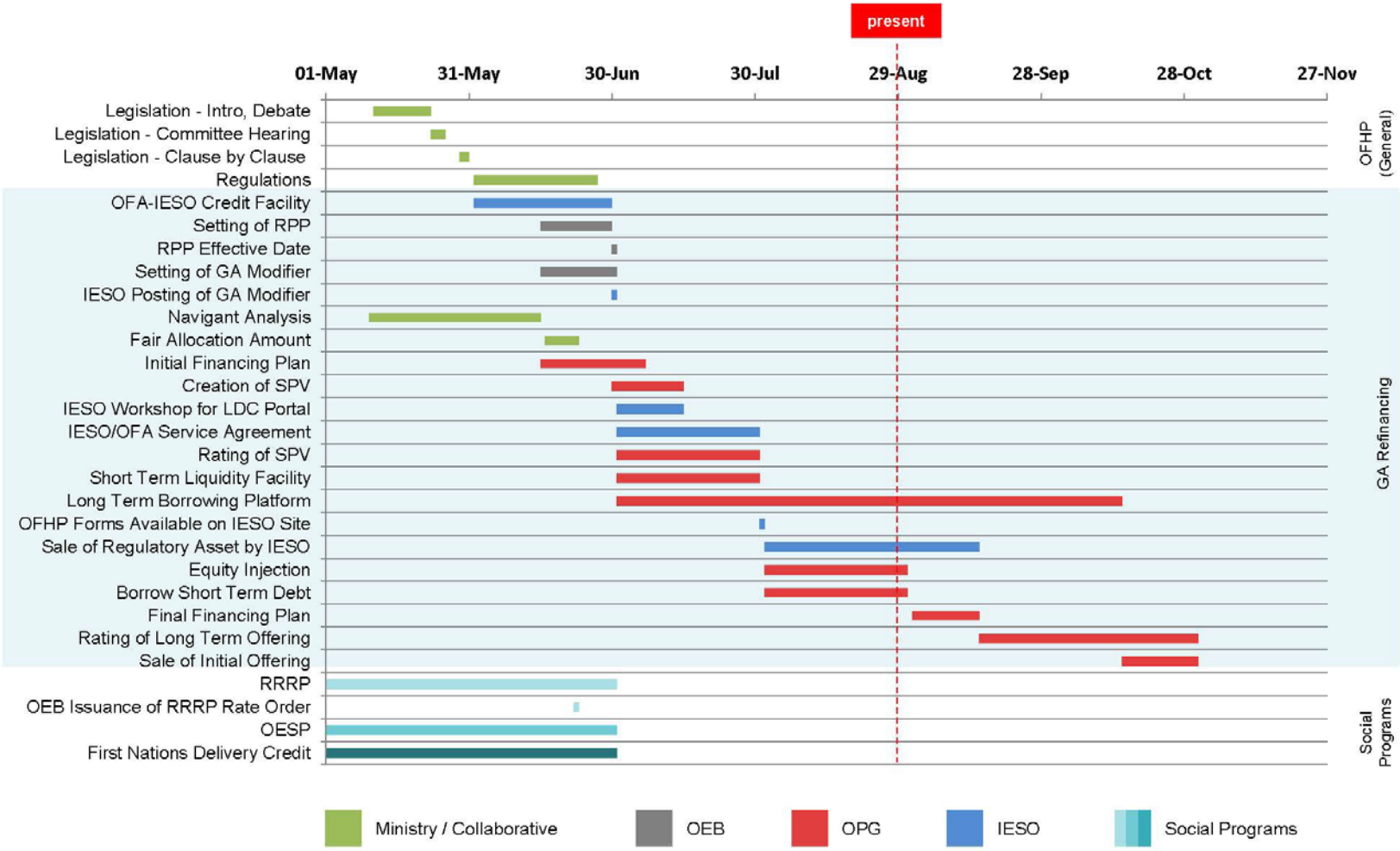
Item	Key Deliverables / Considerations	Timing / Next Steps
	PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_31.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Rate Mitigation Implementation Update Meeting .pdf

From:	Armstrong, Hillary (ENERGY)
To:	Teliszewsky, Andrew (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Schlaepfer, Martin (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY)
Subject:	Rate Mitigation Implementation Update Meeting
Date:	September 8, 2017 7:42:00 PM
Attachments:	2017-09-08 Consolidated - OFHP Matrix - Week of September 11.docx 2017 Outstanding Business Issues - Week of Sept 11.docx

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Hi Andrew,

Attached are the materials for Monday's rate mitigation implementation meeting.

Thanks,
Hillary

2017-09-08 Consolidated - OFHP Matrix - Week _29.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 11, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required – OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account – need to determine quantum – IGS/OFA to prepare summary deck for week of September 4, 2017 – Note: Initial focus of OPG financing will be on Canadian market o Management Fees Regulation o Interest Collection During the Inflationary Cap Period (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism (regulatory line) to pay interest and expenses through GA after the 4 year moratorium o OPG Equity Injection Process o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter re:	• July 1 – 25% takes effect • Summer – Prepare Minister's Fair Allocation Amount (TBD) • Summer – LRC/Cabinet Approval Management Fee regulation (TBD) • Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD) • Week of September 11 – Minister's Fair Allocation Amount letter, following preliminary discussions with OPG • September 27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • Late November 2017 – OPG Financing (TBD)

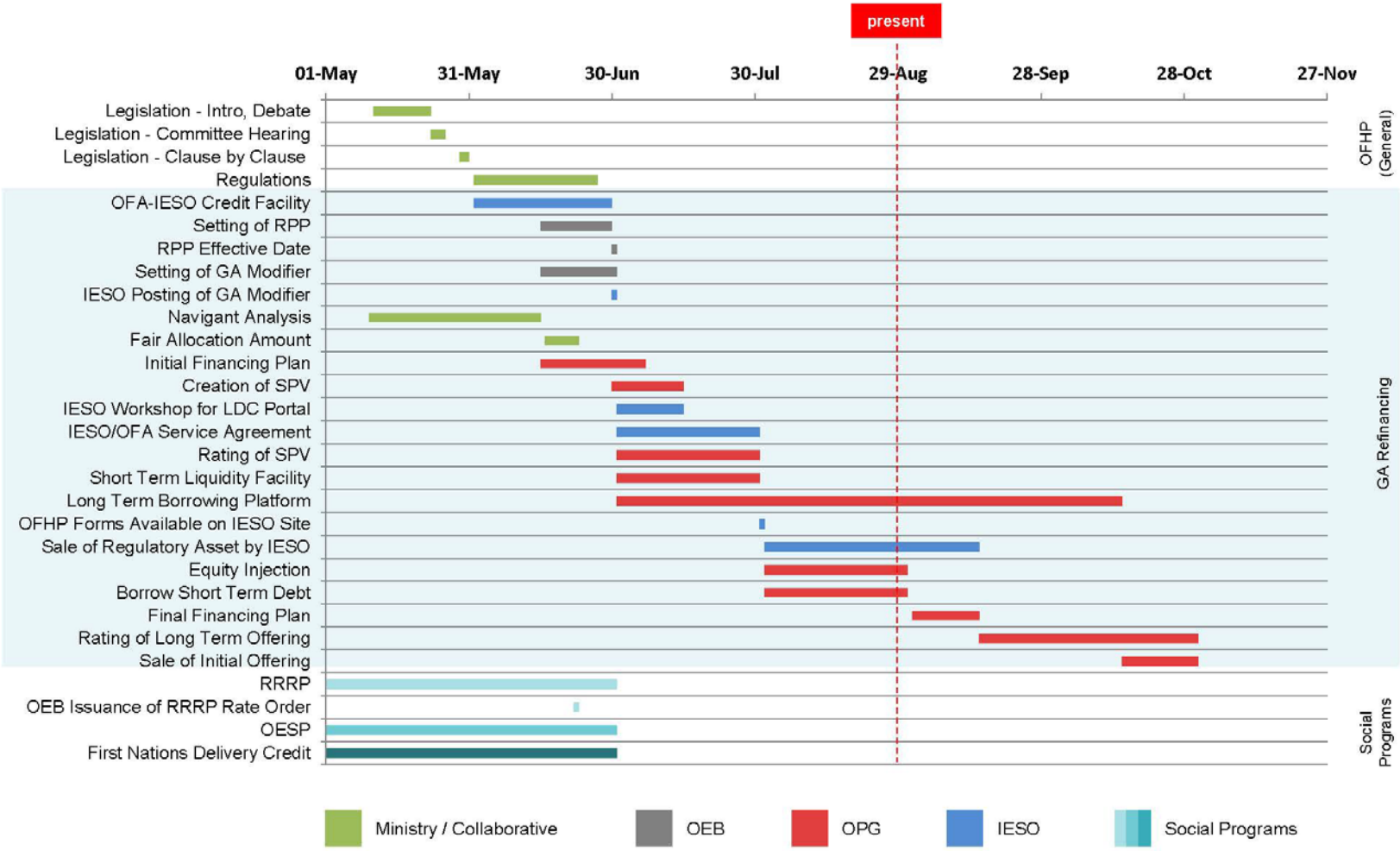
Item	Key Deliverables / Considerations	Timing / Next Steps
	PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September • OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program	• Will hold a wrap-up working group teleconference in August.
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP • OEB and MCSS executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP • Targeted outreach and automatic SA client enrolment by MCSS to start late September; MCSS to continue developing software solution for automation over next several months • Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • Ministry working on post card for FNDC	• Will hold a wrap-up working group teleconference in August.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist) • Stakeholder engagement is underway; preliminary outreach with several LDCs conducted in July and a WebEx and in-person meeting seeking feedback from LDCs on program design held August 1 (~70 participants) • Trustees continue to work through program design concepts and details in order to launch the program as soon as possible • Trustees have agreed to Hydro One's role as administrator • Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)	**September 2017:** Target for program launch **Q2 2017-2018:** • Report back to TB/MBC with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through 2018-19 PRRT based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Trustees to brief Ministry on August 28	
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP	• Summer – Responding to AG Request (Ongoing)
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• Fall 2017 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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2017 Outstanding Business Issues - Week of S_32.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• OPG/MOF/ENE to discuss respective comments on the term sheet • ENE/MOF tracking to TB in September for approval **Timing:** Sept 26 TB/MBC
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: Late Sept/Early Oct
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OEB Rate & Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE and OFA to determine role of OEB in determining fees OPG charges **Timing**: Regulation by the fall

Rate Mitigation Implementation materials_1.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Rate Mitigation Implementation materials
Date:	September 27, 2017 2:59:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolidated.docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hi Steen –
Updated Business issues list and OFHP matrix for tomorrow's rate mitigation implementation group.

Input from ESP, LSB, IGS, SNAP and CRED.

HC

2017-09-27 Consolidated - OFHP Matrix - Week _35.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • Ongoing Business Items o Provincial Guarantees (i.e., performance / payment, term sheet) – ~~OPG/TBS (OPCD), MOF, OFA and ENERGY met on August 10, 2017 to discuss proposed approach to Provincial Guarantee. Additional accounting review on proposed approach is required~~ – ~~OPG proposing to prepare an option for Government to pay outstanding obligation should OPG/Trust no longer be able meet financing obligations~~ – ~~Minister of Energy signed Protection Agreement TB submission and is tracking for Finance Minister signature week of September 17th~~ Protection Agreement term sheet went to TB on September 25 and Cabinet September 27. – OFA / OPG / MOF / ENERGY / OPCD working to finalize ~~draft term sheet for~~ Protection agreement ~~(to be included in TB submission)~~ – IESO and OPG to continue discussions regarding the letter of credit to backstop smaller LDCs without ratings or using a reserve account ~~– need to determine quantum~~ – ~~IGS/OFA to prepare summary deck for week of September 4, 2017~~ – ~~Note: Initial focus of OPG financing will be on Canadian market~~ o Management Fees Regulation ▪ ~~Draft received from OPG. LSB shared to share~~	• ~~July 1 – 25% takes effect~~ • ~~Summer – Prepare Minister's Fair Allocation Amount (TBD)~~ • ~~Summer – LRC/Cabinet Approval Management Fee regulation (TBD)~~ • ~~Summer – LRC/Cabinet Approval Interest Collection During the Inflationary Cap Period regulation (TBD)~~ • ~~Mid-~~Late September – Minister's Fair Allocation Amount letter • September 2~~7~~5/27 – TB/Cabinet Approval and s.28 Approval Provincial Guarantees (TBD) • September 29: OPG Board Meeting October 16~~4141~~1414 – LRC for Management Fees and interest regulation and regulatory amendments

Item	Key Deliverables / Considerations	Timing / Next Steps
	with OEB /and Legislative Counsel. Leg Counsel Draft has been made available to comments to OPG, ENE, OFA and /OEB working to develop proposed regulation which would determine role of OEB in determining fees OPG charges. ▪ Leg Counsel Draft has been circulated o Interest/Fees Collection During the Inflationary Cap Period ▪ ENE/LSB/IESO/OEB/OPG working to develop amendments to Ontario Regulation 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA. Decision required on whether to fund interest/fees through GA or Clean Energy Adjustments. Regulatory amendments required for either option. o (OPG, IESO and Energy to work through approach) o Ministry/OPG to look into mechanism to pay interest and expenses through GA after the 4 year moratorium o FAA letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter. Letter is pending Minister's approval. Final decision required on business issues before finalizing model. o OPG Equity Injection Process: OPG seeking Board approval of Master Subscription Agreement on September 29. Province to finalize internal mechanisms in October o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption – MOF/Tax Policy working on comfort letter/regulation re: PILs for OPG – IGS to provide best timing estimates for PILs, Equity Injection, Subordinated Debt Loan Agreement (between OPG and Trust) • OPG continuing work with rating agencies. OPG working to finalize this working by end of September	related to interstinterest and /fees collection during the Inflationary Cap • • Late November 2017 – OPG Financing (TBD) • Late November 2017 – OPG Financing (TBD)

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Item	Key Deliverables / Considerations	Timing / Next Steps
	• OPG to go to its Board with OFHP financing plan following direction from August 16, 2017 meeting • Agencies (OPG/IESO/OEB) to provide weekly critical paths/detailed workplans as required • ~~ENERGY working with Navigant to prepare a report on long lived assets and associated assessment of value~~ ~~o ENERGY has shared draft FAA model with OPG~~ ~~o~~	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs. • OEB and MCSS ~~executed MOU (as per recent OEBA amendments) to share information that will support targeted outreach for social assistance clients potentially eligible but not enrolled in OESP~~completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and • ~~Targeted outreach and automatic SA client enrolment by MCSS~~	• Week of August 7 – follow-up with CRA on proposed wet signature solution

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Item	Key Deliverables / Considerations	Timing / Next Steps
	~~to start late September;~~ MCSS to continue developing software solution for automation over next several months. • ~~Significant progress on wet signature issue – SNAP continues to work with, MOF, OEB and CRA on solution~~CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance. • ~~SNAP to work with TBS to ensure funds flow from fiscal plan when OESP moves to the tax base~~Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments. • Ministry and OEB have initiated work to transfer OESP to government.	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • ~~Ministry working on post card for FNDC~~FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry.	• ~~Will hold a wrap-up working group teleconference in August.~~Will work on updated cost projection for PRRT. • Hydro One to provide update on program enrollment week of October 2nd.
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-	**~~September~~October 2017:** Target for program launch **~~Q2~~Fall 2017~~-2018~~:** • The Trustees are considering the use of Ontario 211 services for the Affordability

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Item	Key Deliverables / Considerations	Timing / Next Steps
	voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist~~)~~). • ~~Stakeholder engagement is underway; preliminary outreach~~Preliminary consultations with ~~several~~ LDCs ~~conducted~~were undertaken in July~~ and~~. On August 1, Hydro One hosted a ~~WebEx and in-person meeting seeking feedback from~~consultation session with LDCs to seek input on program design~~ held August 1 (~70 participants)~~; over 30 LDCs participated. • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation. • Trustees continue to work through program design concepts and details in order to launch the program ~~as soon as possible~~in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis. • ~~Trustees have agreed to Hydro One's role as administrator~~ • ~~Trustees call held August 11, 2017 (recap of LDC feedback and discussion on program design)~~ • ~~Trustees to brief Ministry on August 28~~Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund. •	Fund. • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario logo in Fund marketing and communications. • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets. **Late 2017/early 2018:** • ENERGY can apply for additional funds through ~~2018-19 PRRT~~an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust.
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records	• Fall~~Summer~~ – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft

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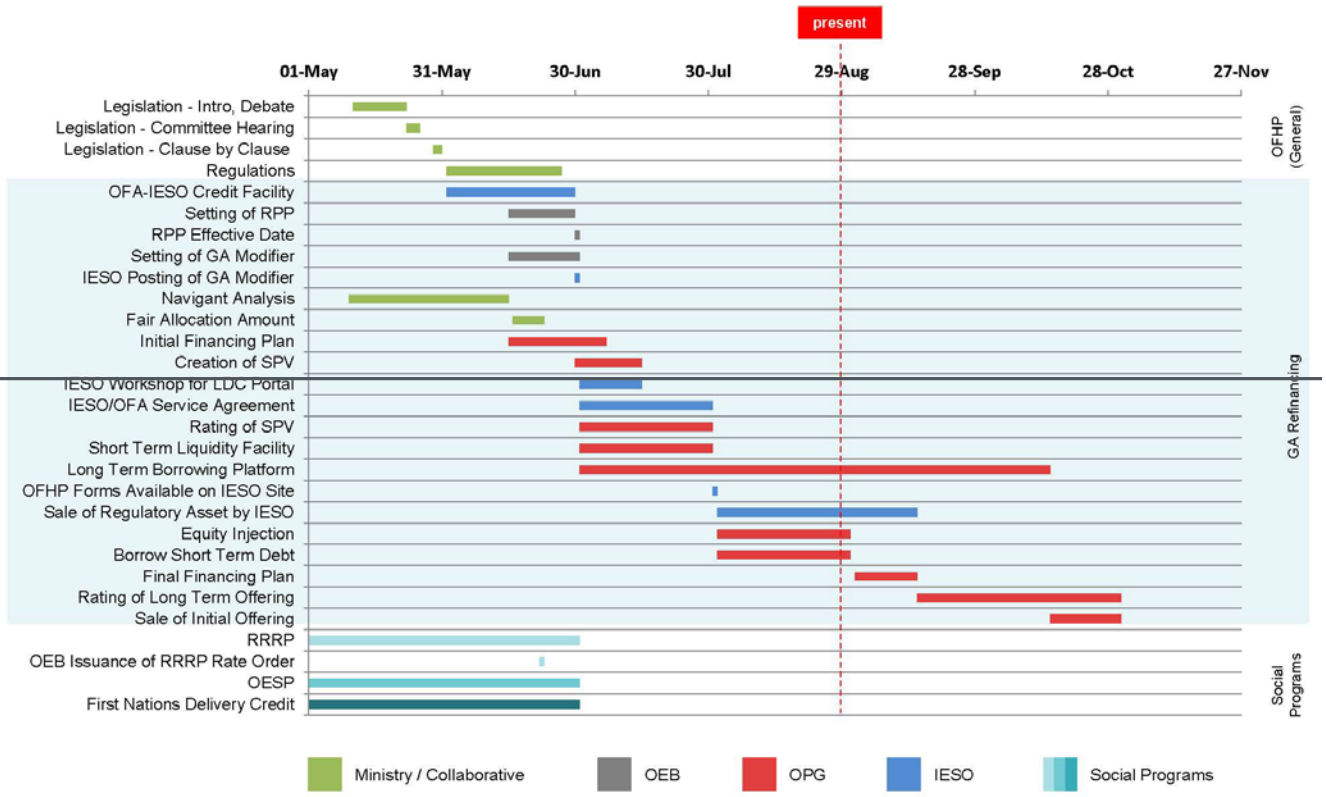
Item	Key Deliverables / Considerations	Timing / Next Steps
	• TBS advises that AG is tracking for an opinion on Public Accounts (PA) on August 18, which would result in an earliest release by the government of the PA on August 28 (Note: The statutory deadline in September 27) • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has shared a draft special report on Ontario's Fair Hydro Plan (OFHP) with Ministry of Energy	AG special report on OFHP.
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• ~~Fall 2017~~2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations.	• Continue this work as part of LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	IESO: • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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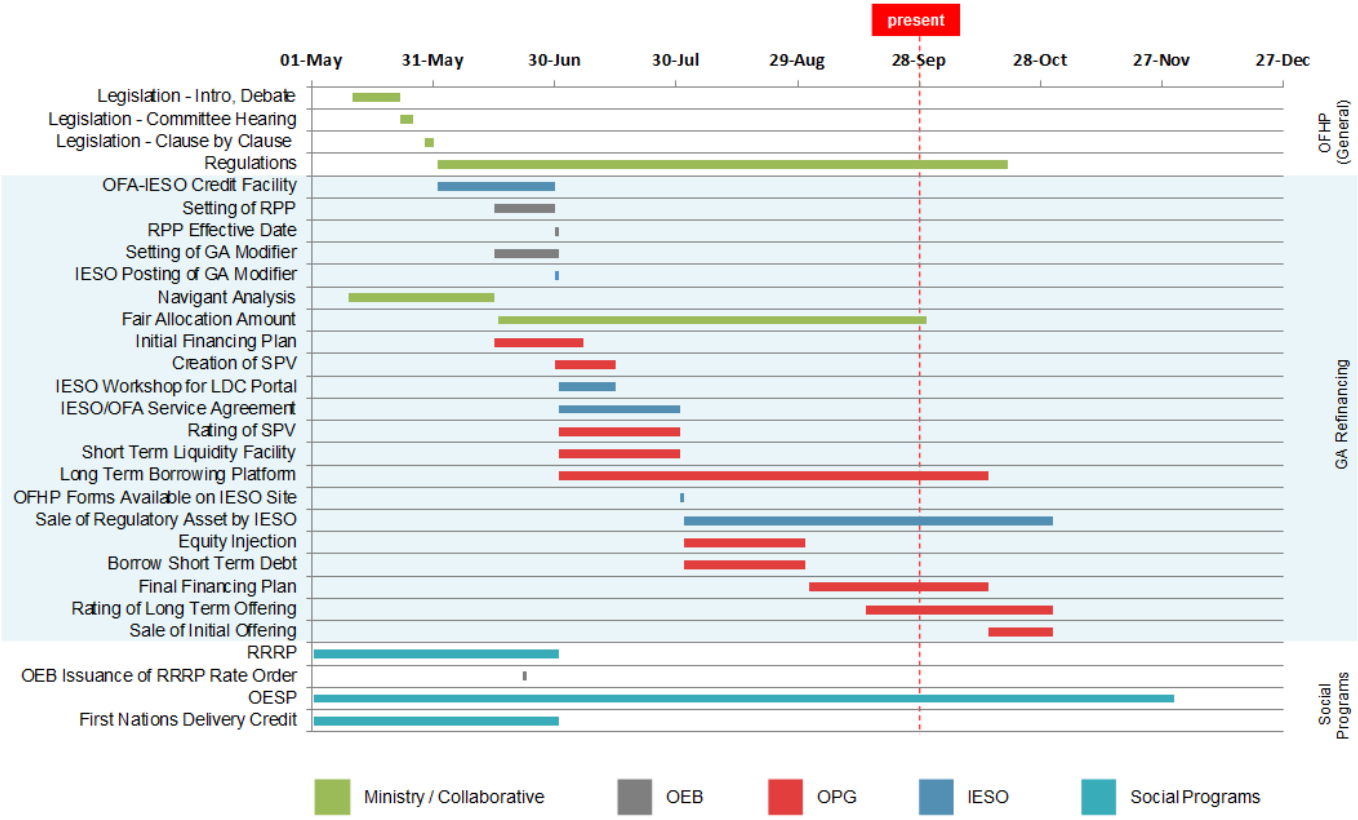
Commented [SB(2]: OESP implementation should be extended to end of November. It had multiple milestones to date (2 reg changes, 1 leg change, MCSS alignment, 50% + expansion) and has more to come (shift to tax base, government administration, further MCSS automation of OESP).

Commented [LH3]: To be replaced with the updated version below.

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Commented [LH4]: Updated version

2017 Outstanding Business Issues - Week of S_33.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Guarantees	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• ENE/MOF tracking to TB in September for approval **Timing:** Sept 2~~6~~5 TB/MBC / Sept 27 CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / Energy to determine required monthly process and sign-off mechanism **Timing**: ~~Late Sept/Early Oct~~OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with ~~OPG~~MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late Sept
OPG~~OEB Rate &~~ Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• OPG, ENE~~, and~~ OFA and OEB working to develop proposed regulation which would~~to~~ determine role of OEB in determining fees OPG charges **Timing**: Proposed ~~R~~regulation expected to be reviewed at October 16 LRC.~~by the fall~~
OPG Fees and Interest Recovery	• OPG accounting advise that interest and fees must be recovered during "inflationary cap" period	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA	• OPG, ENE, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via G~~g~~lobal A~~a~~djustment.

	for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.	Regulations	

Rate Mitigation Meeting(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Teliszewsky, Andrew (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY)
Subject:	Rate Mitigation Meeting
Date:	September 27, 2017 8:00:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolida....docx Agenda_Weekly Rate Mitig Implmentation Group_ Sept 28.docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hi Andrew,

Attached are the materials for tomorrow morning's meeting.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
E: martin.schlaepfer@ontario.ca

2017-09-27 Consolidated - OFHP Matrix - Week _36.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

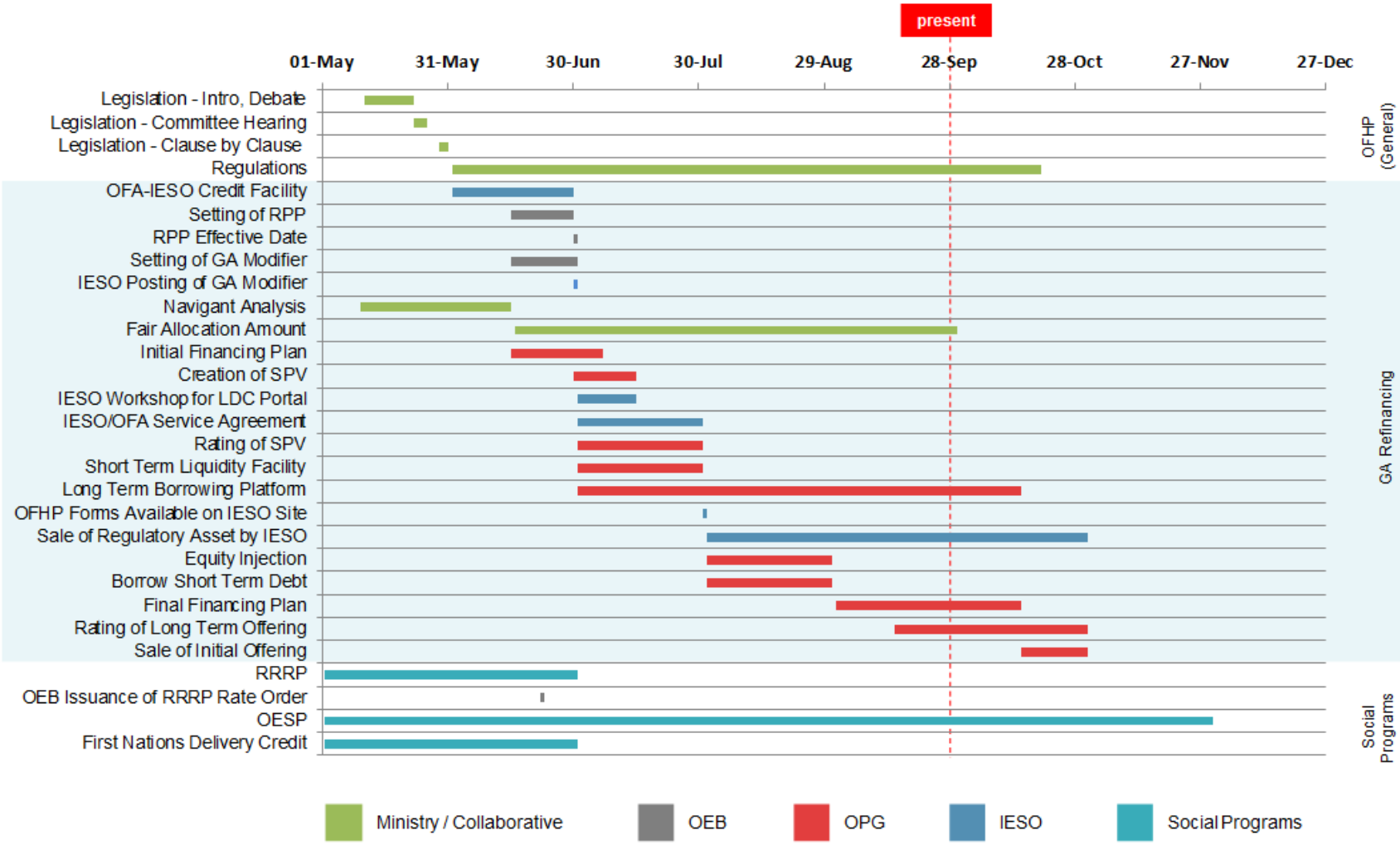
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Agenda_Weekly Rate Mitig Implmentation Group__16.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Business Item (OPG/IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees, Interest Payments and FAA Letter (ENERGY)

2) Estimates

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017 Outstanding Business Issues - Week of S_34.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

Rate Mitigation Meeting(2).pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Cox, Hilary (ENERGY)
Subject:	Rate Mitigation Meeting
Date:	November 22, 2017 3:54:52 PM
Attachments:	Agenda_Weekly Rate Mitig Implmentation Group_ Nov 22.docx Technical Briefing Fair Hydro Plan OPG Financing Plan Nov 22.pptx

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Hi Martin: attached is a proposed agenda and OPG's Technical Briefing presentation.

We're still waiting for the other Divisions' feedback on the Business Items and OFHP Matrix. We'll send that along when it comes in.

I have to run to a personal appointment and will be off-line for an hour.

Thanks, Steen

Agenda_Weekly Rate Mitig Implmentation Group__17.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
November 22, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Support Agreement (OFA / OPG / ENERGY)
    - OPG's Financing Plan / Market Activities (OPG)

2) Technical Briefing (All)

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

Technical Briefing Fair Hydro Plan OPG Financ_1.pdf

Fair Hydro Plan
OPG's Role and Financing Plan
Technical Briefing

December, 2017

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DRAFT

ONTARIO POWER GENERATION

Role of Ontario Power Generation (OPG) in Global Adjustment Refinancing

- **The *Ontario Fair Hydro Plan Act, 2017*, identifies OPG as the Financial Services Manager (FSM) to develop the financing plans and manage the financing entity (i.e. Fair Hydro Plan Trust) responsible for managing the debt obligations associated with GA refinancing.**
  - OPG has extensive experience and expertise in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.
  - In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.
  - OPG has established the Trust.
- OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the Used Fuel Segregated Fund, and $15 billion in pension funds.
- OPG has also developed solid investor relationships and has a large investor base in the structured finance space [NTD: insert target market] for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

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ONTARIO POWER GENERATION

OPG Recent Financing Activities

- On September 12, 2017, OPG filed a $2 billion short form shelf prospectus to facilitate corporate borrowing through a medium term note program over the next two years. The net proceeds from borrowing under this prospectus will be used for general corporate purposes and the financing of OPG's subordinated debt investment in the Fair Hydro Plan

- In October, OPG issued $500 million of senior notes payable under the Medium Term Note Program. The notes have a coupon interest rate of 3.32 percent and an effective rate of 3.43 percent, payable semi-annually with a maturity date of October 4, 2027
- Notes issued exceeded the original OPG target of $300 million because of the strong reception from investors.

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Fair Hydro Trust Financing

- On November 22, OPG's Board of Directors approved OPG's plan for participation in the Fair Hydro Plan, and to act as the Financial Services Manager.
  - OPG has established a holding company FHP 2017 Inc. which will own and control the Trust.

- To date, $1 billion in Global Adjustment payments have been deferred under the Fair Hydro Plan and held by the Independent Electricity System Operator (IESO).
- The Fair Hydro Trust purchased this asset in December. The initial $1 billion in investment assets purchased by the Trust was financed as follows:
  - Borrowing by the Trust through senior debt from capital markets $510 million (51%)
  - Equity injection by the Province $440 million (44%) invested as subordinated debt in the Trust
  - OPG subordinated debt in the Trust $50 million (5%) already raised through the initial borrowing

- In subsequent months the Trust will make a decision on the purchase of subsequently generated assets (approximately $200 million per month) and any required financing.
- A second round of borrowing will take place in Q1 - 2018 to continue managing the refinancing of the Global Adjustment.
- [NTD: Placeholder about success/level of interest in the offering]

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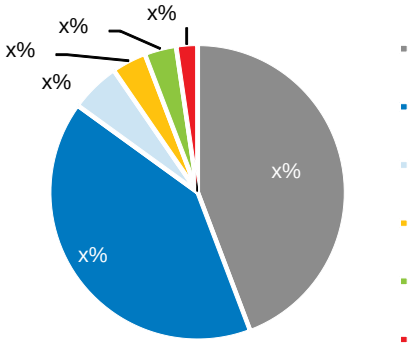
Debt Offering Summary

TERMS SUMMARY

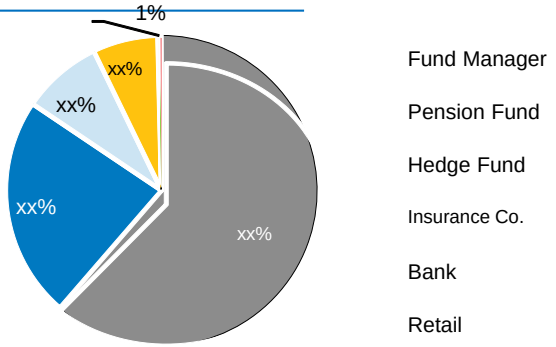
Issuer	Fair Hydro Trust .
Pricing Date	xx-Dec 17
Settlement Date	xx-Dec-17
Ratings (DBRS/Moodys)	xxx
Amount	$xxx million
Coupon	x.xx%
Coupon Dates	xxx and xxx
Maturity Date	x-xxx-xx
Spread vs. Benchmark	+xx bps (credit: +xx bps, curve: +xx bps)
GoC Curve	GoC x.xx% due xx, xxxx GoC x.xx% due xx, xxxx
GoC Benchmark	GoC x.xx% due xx, xxxx
Benchmark Price/ Yield	$xx.xx / x.xx%
Price	$xxxx
Yield	x.xxx%
Syndicate	xxxx

1. Co-Lead Agent & Bookrunner.

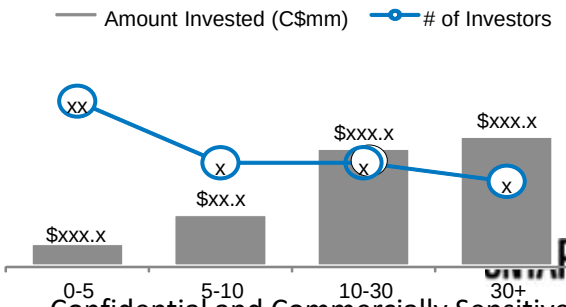
INVESTOR LOCATION



INVESTOR TYPE



ALLOCATION HISTOGRAM[1]



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Reporting

- Through OPG's ownership and control over the key activities of the Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.
- OPG will report the financial results of the Trust's operations in its annual report and 4th Quarter financial results. These results will be released by OPG in early March 2018.
- The Trust's activities will be reported as a separate segment in OPG's overall results as follows:
  - Regulated – Nuclear Generation
  - Regulated - Hydroelectric
  - Contracted Generation Portfolio
  - Regulated - Nuclear Waste Management
  - Services, Trading, and Other Generation
  - Fair Hydro Trust
- The Trust's financial results will also be reported directly to the Province as OPG's shareholder.

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Rate Mitigation Meeting.pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Hilary Cox (ENERGY) (Hilary.Cox@ontario.ca)
Subject:	Rate Mitigation Meeting
Date:	September 27, 2017 5:35:00 PM
Attachments:	2017-09-27 Consolidated - OFHP Matrix - Week of September 25 - Consolidated.docx Agenda_Weekly Rate Mitig Implmentation Group_ Sept 28.docx 2017 Outstanding Business Issues - Week of Sept 25 IGS ESP.DOCX

Hi Martin. Attached are materials for tomorrow's rate mitigation meeting at 8:00 am.

Agenda is fairly standard, per our discussion. The OFHP Matrix and IGS Business Issues have been updated to reflect status and progress that is being made on the different files.

If you have any questions, happy to chat.

Steen

2017-09-27 Consolidated - OFHP Matrix - Week _37.pdf

Implementation of Ontario's Fair Hydro Plan
Week of September 25, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account o FAA Letter ▪ ENERGY and OPG have exchanged modelling data to support FAA and RA amounts in Minister's letter ▪ Letter is pending Minister's approval o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft has been circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which	• Late September – Minister's Fair Allocation Amount letter • September 25/27 – TB/ Cabinet Approval of Provincial Protection and Assurance Agreement Term Sheet • September 29 – OPG Board Meeting • October 16 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

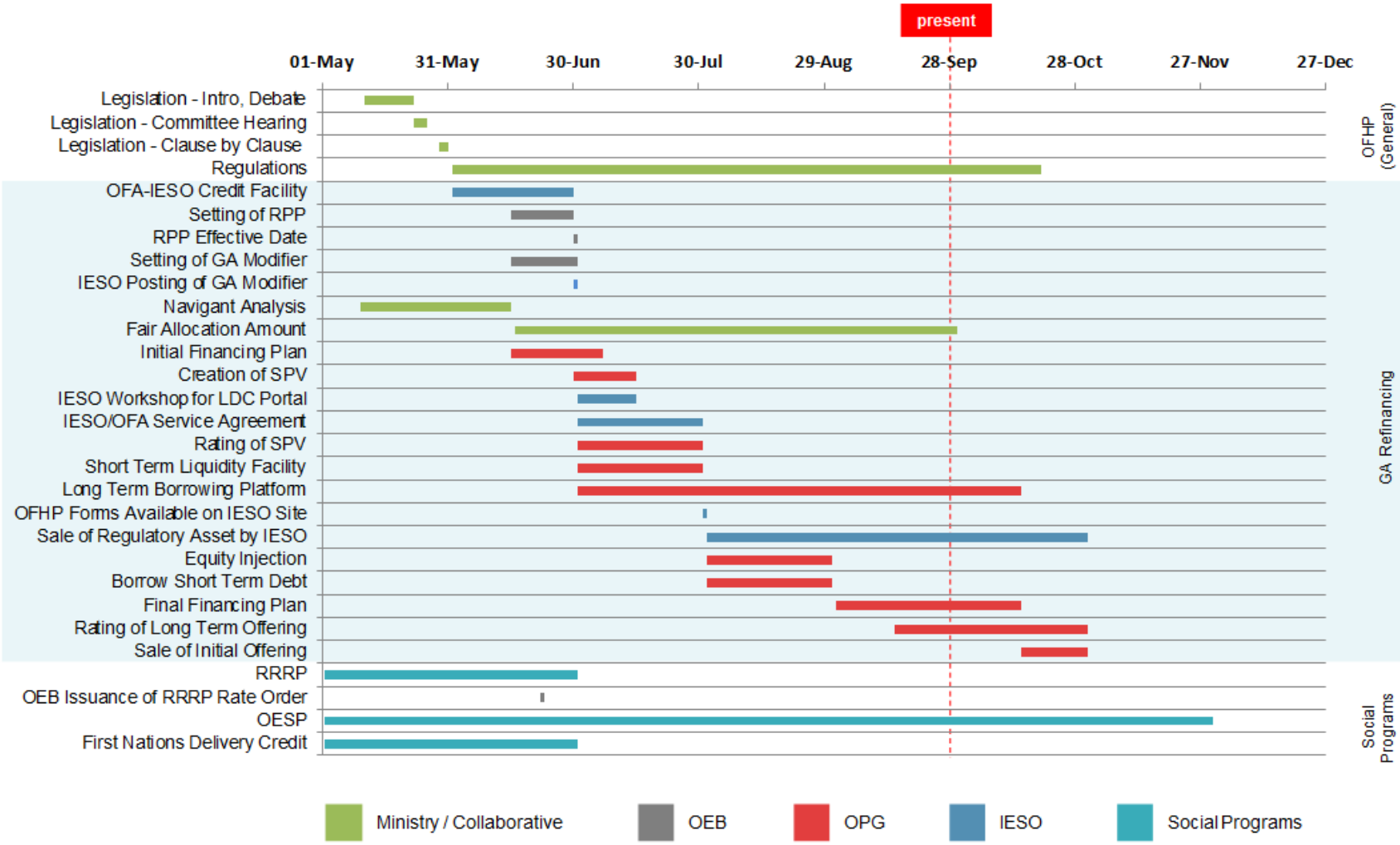
Item	Key Deliverables / Considerations	Timing / Next Steps
	would enable fees and interest amounts to be recovered via Global GA ▪ Develop amendments to O. Reg. 429/04 and related amendments to OFHPA regulations to enable recovery of interest/fees via GA ▪ Leg Counsel Draft has been circulated o Subordinate Debt Loan Agreement o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG • OPG continuing to work with rating agencies	
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	<u>Recent Action Items</u> • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Week of August 7 – follow-up with CRA on proposed wet signature solution

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting late October / early November to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (Ottawa Carleton UW / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is offering back office support and helping coordinate stakeholder engagement on program design for the Board of Trustees (have engaged Accenture to assist)	**October 2017:** Target for program launch **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is proposing to amend TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees continue to work through program design concepts and details in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Staff from Ministry of Community and Social Services (MCSS) attended the September 7 Board of Trustees meeting to discuss potential use of Ontario 211 services for the Affordability Fund	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		

Item	Key Deliverables / Considerations	Timing / Next Steps
• ENERGY, LSB, IESO and LDCs	<u>Recent Action Items</u> • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) <u>Considerations</u> • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Agenda_Weekly Rate Mitig Implmentation Group__18.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
September 28, 2017

Agenda

1) GA Refinancing
    - General Update (OPG / IESO)
    - Business Item (OPG/IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees, Interest Payments and FAA Letter (ENERGY)

2) Estimates

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017 Outstanding Business Issues - Week of S_35.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** September 25 – TB/MBC / September 27 – CAB Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** OPG Board meeting September 29 (Master Subscription Agreement) October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Regulation by fall
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Late September
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) performance fee	• Draft Base Fee framework • Draft Performance Fee framework • Regulation	• ENE, OPG, OEB and OFA working to develop proposed regulation which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 LRC.
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to	• Amendments to Ontario Regulation 429/04 • Amendments to OFHPA Regulations	• ENE, OPG, OEB, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered via Global Adjustment (GA).

	proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero.		**Timing**: Proposed regulation expected to be reviewed at October 16 LRC.

Re_ Ag deck(1).pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Re: Ag deck
Date: October 16, 2017 8:57:07 PM

"Were transparently recovered" to "are transparently recovered" doesn't work? Believe he's still talking about bullet 2, slide 2.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY)
Sent: Monday, October 16, 2017 8:51 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: Re: Ag deck

No we can't make that change. 8%, RRRP, OESP are all taxpayer funded.

On Mon, Oct 16, 2017 at 8:49 PM -0400, "Cox, Hilary (ENERGY)" <Hilary.Cox@ontario.ca> wrote:

> Hey Guys -
> This work? Please also turn a clean copy.
>
> HC
>
> Sent from my BlackBerry 10 smartphone on the Rogers network.
>
> ---
>
> **From:** Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
> **Sent:** Monday, October 16, 2017 8:48 PM
> **To:** Cox, Hilary (ENERGY)
> **Subject:** RE: Ag deck
>
> ---
>
> Thanks. Can we stick with “transparently” and change “were” to “are”? Also, can you send up the clean version?
>
> Thanks,
> Martin
>
> ---
>
> **From:** Cox, Hilary (ENERGY)
> **Sent:** October 16, 2017 8:46 PM
> **To:** Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
> **Subject:** Fw: Ag deck
>
> Hi Martin -

Revised technical briefing deck. Note staff comments on bullet 2, slide 2.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Monday, October 16, 2017 8:18 PM
To: Hume, Steen (ENERGY)
Subject: Fw: Ag deck

Hi Steen -
DM requested edits to tech deck. Tim notes that the 2nd bullet on the 2nd slide doesn't make sense with the edits and should be removed or reverted back to the "before the introduction of OFHP..." language

Re_ Ag deck(2).pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: Re: Ag deck
Date: October 16, 2017 8:58:20 PM

But it needs the "before the introduction of..." language at the beginning to be true. It's not clear from his email that he understands that.

_____
From: Cox, Hilary (ENERGY) <hilary.cox@ontario.ca>
Sent: Monday, October 16, 2017 8:57 PM
Subject: Re: Ag deck
To: Christie, Tim (ENERGY) <tim.christie@ontario.ca>, Cayley, Daniel (ENERGY) <daniel.cayley@ontario.ca>

"Were transparently recovered" to "are transparently recovered" doesn't work? Believe he's still talking about bullet 2, slide 2.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Christie, Tim (ENERGY)
Sent: Monday, October 16, 2017 8:51 PM
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: Re: Ag deck

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> **Sent:** Monday, October 16, 2017 8:48 PM
> **To:** Cox, Hilary (ENERGY)
> **Subject:** RE: Ag deck
>
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> Thanks. Can we stick with “transparently” and change “were” to “are”? Also, can you send up the clean version?

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: October 16, 2017 8:46 PM
To: Schlaepfer, Martin (ENERGY) < Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: Fw: Ag deck

Hi Martin -
Revised technical briefing deck. Note staff comments on bullet 2, slide 2.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Sent: Monday, October 16, 2017 8:18 PM
To: Hume, Steen (ENERGY)
Subject: Fw: Ag deck

Hi Steen -
DM requested edits to tech deck. Tim notes that the 2nd bullet on the 2nd slide doesn't make sense with the edits and should be removed or reverted back to the "before the introduction of OFHP..." language

Re_ Ag deck(3).pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Re: Ag deck
Date: October 16, 2017 10:18:13 PM

Let me know what time I can expect the edit. I'll get up at 6. Hopefully you can send shortly after that.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY)
Sent: Monday, October 16, 2017 9:41 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: Fw: Ag deck

See below request for new bullet for slide 2 that doesn't use before the OFHP language.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Sent: Monday, October 16, 2017 9:34 PM
To: Cox, Hilary (ENERGY)
Subject: Re: Ag deck

Hi,

Can folks propose a revised bullet that doesn't use the before the OFHP?

Deputy's comment:

"I think that all we're trying to say is that ratepayers pay for the costs of the electricity system - generation, transmission, distribution and conservation."

Let just propose something new that's straightforward language to get the point of above across.

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: Monday, October 16, 2017 9:17 PM
To: Schlaepfer, Martin (ENERGY)
Subject: Re: Ag deck

Thanks

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY)
Sent: Monday, October 16, 2017 9:14 PM
To: Cox, Hilary (ENERGY)
Subject: Re: Ag deck

Checking will let you know.

From: Cox, Hilary (ENERGY)
Sent: Monday, October 16, 2017 9:09 PM
To: Schlaepfer, Martin (ENERGY)
Subject: Re: Ag deck

It just somehow got dropped from the title.

Let me know what the DM wants to do with that bit of slide 2.

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY)
Sent: Monday, October 16, 2017 9:08 PM
To: Cox, Hilary (ENERGY)
Subject: Re: Ag deck

Sure.

From: Cox, Hilary (ENERGY)
Sent: Monday, October 16, 2017 9:06 PM
To: Schlaepfer, Martin (ENERGY)
Subject: Fw: Ag deck

And IESO on slide 8 needs to say system - as below.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Hume, Steen (ENERGY) <Steen.Hume@ontario.ca>
Sent: Monday, October 16, 2017 9:05 PM
To: Cox, Hilary (ENERGY)
Subject: Re: Ag deck

Hi. Slide 8, in the title, can Martin as in "System".

Should read:

GA Refinancing - Role of the Independent Electricity System Operator (IESO)

Thank you,

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Cox, Hilary (ENERGY)
Sent: Monday, October 16, 2017 8:18 PM
To: Hume, Steen (ENERGY)
Subject: Fw: Ag deck

Hi Steen -

DM requested edits to tech deck. Tim notes that the 2nd bullet on the 2nd slide doesn't make sense with the edits and should be removed or reverted back to the "before the introduction of OFHP..." language

Re_ Ag deck.pdf

From: Christie, Tim (ENERGY)
To: Cox, Hilary (ENERGY); Cayley, Daniel (ENERGY)
Subject: Re: Ag deck
Date: October 16, 2017 8:51:23 PM

No we can't make that change. 8%, RRRP, OESP are all taxpayer funded.

On Mon, Oct 16, 2017 at 8:49 PM -0400, "Cox, Hilary (ENERGY)" <Hilary.Cox@ontario.ca> wrote:

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> **Subject:** RE: Ag deck
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> **Subject:** Fw: Ag deck
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> Revised technical briefing deck. Note staff comments on bullet 2, slide 2.
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> **Sent:** Monday, October 16, 2017 8:18 PM
> **To:** Hume, Steen (ENERGY)
> **Subject:** Fw: Ag deck
>
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Re_ For ESP Review_ SCOPA Response table_1.pdf

From: Cox, Hilary (ENERGY)
To: Lightbody, Ava (ENERGY)
Cc: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: Re: For ESP Review: SCOPA Response table
Date: January 26, 2018 2:17:09 PM

We only added content on OFHP policy intent to the OFHP accounting piece, right? The rest is indeed being reviewed by others.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Lightbody, Ava (ENERGY)
Sent: Friday, January 26, 2018 2:13 PM
To: Cox, Hilary (ENERGY)
Cc: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Hilary,

Our additions to this SCOPA response table. Note that some of this content would be IESO or TBS domain, i.e. in the "IESO accounting" and "Legislated Accounting" sections.

Feel free to give me a ring if any concerns.

Ava

From: Cox, Hilary (ENERGY)
Sent: January 25, 2018 4:56 PM
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject: FW: For ESP Review: SCOPA Response table

Hi Guys –
Steen asks that you beef up the language around OFHP policy intent (per Estimates and AG QAs) for attached table. There is something vaguely there, but it needs to be clearer, more like our messaging and generally enhanced. Tomorrow EOD seem possible?

HC

Re_ Meetings with AG on Fair Hydro Plan.pdf

From: Cox, Hilary (ENERGY)
To: Armstrong, Hillary (ENERGY)
Cc: Hunter, Robert A. (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: Re: Meetings with AG on Fair Hydro Plan
Date: September 5, 2017 5:36:01 PM

I can ask TBS what they're looking for, but thus far they were only interested in gov't timeline.

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Armstrong, Hillary (ENERGY)
Sent: Tuesday, September 5, 2017 5:13 PM
To: Cox, Hilary (ENERGY)
Cc: Hunter, Robert A. (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: RE: Meetings with AG on Fair Hydro Plan

Hi Hilary,

Good to share back with TBS. MO is wondering if this question is being asked of our agencies as well, or if that is something TBS would want to know.

Thanks,
Hillary

From: Cox, Hilary (ENERGY)
Sent: September-05-17 11:47 AM
To: Armstrong, Hillary (ENERGY)
Cc: Hunter, Robert A. (ENERGY); Schlaepfer, Martin (ENERGY)
Subject: FW: Meetings with AG on Fair Hydro Plan

Hi Hillary A-
As part of preparation for Public Accounts, TBS is compiling a list of all govt meetings, briefings, calls, etc with the AG that related to Fair Hydro Plan. Below is the list of OFHP meetings/briefings and calls with Energy.

Let me know when I'm approved to send back to TBS.

HC

April 19, 2017 (3:30 pm)	Ontario Fair Hydro Plan Briefing for AG (TBS, MOF, ENERGY)
May 31, 2017 (3:30 pm)	DM Call | Auditor General
June 5, 2017 (4:30 pm)	DM Call | Auditor General

June 15, 2017 (5:15 pm)	AG phoned DM (not scheduled in calendar)
August 9, 2017(10:30 am)	DM Meeting | Auditor General

From: Schlaepfer, Martin (ENERGY)
Sent: August 25, 2017 9:06 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: RE: Meetings with AG on Fair Hydro Plan

Hi Hilary,

Francesca will look into this on Monday and compile a list.

Thanks,
Martin

From: Cox, Hilary (ENERGY)
Sent: August 25, 2017 10:17 AM
To: Schlaepfer, Martin (ENERGY) <Martin.Schlaepfer@ontario.ca>
Subject: FW: Meetings with AG on Fair Hydro Plan

Hi Martin –
As below, TBS is asking us to compile a list of meetings, calls etc with AG related to OFHP. I've got the info on the technical briefing we did back in the spring, but the DM's subsequent meetings and calls are something I haven't kept track of.

Could you tackle that part of the list and send to me? I'll consolidate.

HC

From: Hosick, Sarah (TBS)
Sent: August 23, 2017 5:19 PM
To: Cox, Hilary (ENERGY) <Hilary.Cox@ontario.ca>
Subject: Meetings with AG on Fair Hydro Plan

Hi Hilary,

For backpocket purposes for Public Accounts release preparation we are putting together a timeline of all govt meetings, briefings, calls, etc with the AG that related to Fair Hydro Plan.

Are you able to pull together a list for me of dates of Energy-AG meetings and if any other organizations were present?
I have the one from April 19 that TBS and Energy were both at, but I understand there were other meetings where she met with Energy separately.

Let me know if you have any questions. Hoping to get a consolidated timeline together by end of week

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

Re_ Standing Committee on Public Accounts - Cha..._1.pdf

From: Cox, Hilary (ENERGY)
To: Schlaepfer, Martin (ENERGY)
Cc: Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject: Re: Standing Committee on Public Accounts - Chapter 2
Date: February 13, 2018 6:36:40 PM

Fabulous. I'll also forward to Anthy (just in case the others don't).

HC

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Schlaepfer, Martin (ENERGY)
Sent: Tuesday, February 13, 2018 6:24 PM
To: Cox, Hilary (ENERGY)
Cc: Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject: FW: Standing Committee on Public Accounts - Chapter 2

FYI, we also shared these with OPG.

From: Schlaepfer, Martin (ENERGY)
Sent: February 13, 2018 6:24 PM
To: 'David Barrett' <david.barrett@ieso.ca>
Cc: Jordan Penic <jordan.penic@ieso.ca>; Nucciarone, Michael (ENERGY) <Michael.Nucciarone@ontario.ca>; Armstrong, Hillary (ENERGY) <Hillary.Armstrong@ontario.ca>
Subject: Standing Committee on Public Accounts - Chapter 2

Hi David,

Attached are the latest materials for our appearance at SCOPA on chapter 2.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
M: 647-980-4634
E: martin.schlaepfer@ontario.ca

Revised CH. 2 QA and friendlies.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Revised CH. 2 QA and friendlies
Date:	February 5, 2018 11:47:00 AM
Attachments:	SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5.DOCX.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5.docx

---

Hi Steen -
Revised Ch. 2 QA and friendlies – leading with social programs (but using full list from March QA). List now duplicates some of the text (ie GA refinancing is included in the list), so give a look to let me know if this works and if you want EPE/other divisions to review.

HC

SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5.DOCX.pdf

QUESTIONS & ANSWERS

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DRAFT

PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

DRAFT

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken~~Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.
- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.
- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).
- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

~~Second, the province has introduced rate relief programs and expanded existing ones.~~

~~In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).~~

~~The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.~~

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);

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- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority

Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization

[8] Ontario Power Generation
[9] Ontario Power Generation

programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.
- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
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- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).
- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Second, the province has introduced rate relief programs and expanded existing ones.~~

~~In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).~~

~~The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust

electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

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Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

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Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

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The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _20.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.
   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- o Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- o Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).
- Any rate increases over the next four years will be held to the rate of inflation.

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Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a

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strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered*

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> *by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are

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regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

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1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

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As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

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management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Revised Chapter 2 QA and friendlies.pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	Revised Chapter 2 QA and friendlies
Date:	February 5, 2018 11:20:00 AM
Attachments:	SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5.DOCX.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5.docx

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Hi Steen –
The DM asked that for SCOPA Ch. 2 the OFHP questions lead with the tax-basing of social programs, including the rationale as to why this was appropriate. Then we move to GA.

I've done this myself, copying in the text from a couple of the QAs we did for the original March tech briefing.

Let me know if you want EPE and/or other divisions to review.

HC

SCOPA QAs_MOE_20180129 - EPE-ADM FEB 5.DOCX_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken:

The Province has enhanced the Ontario Electricity Support Program (OESP) and the Rural and Remote Rate Protection Program which offer significant benefits to eligible consumers. The province has also launched a new Affordability Fund which supports Ontarians who are not eligible for the Home Assistance Program, and is providing on-reserve First Nations with a delivery credit.

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Rate relief programs such as these have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

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This will reduce bills for everyone, and ensure these programs continue to serve those in need.

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~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

~~Second, the province has introduced rate relief programs and expanded existing ones.~~

~~In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).~~

~~The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.~~

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

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GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

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Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority

investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

[8] Ontario Power Generation
[9] Ontario Power Generation
[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken.

The Province has enhanced the Ontario Electricity Support Program (OESP) and the Rural and Remote Rate Protection Program which offer significant benefits to eligible consumers. The province has also launched a new Affordability Fund which supports Ontarians who are not eligible for the Home Assistance Program, and is providing on-reserve First Nations with a delivery credit.

Rate relief programs such as these have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Second, the province has introduced rate relief programs and expanded existing ones.~~

~~In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).~~

~~The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

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- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

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In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.

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- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a

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behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

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All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken~~.~~:

   The Province has enhanced the Ontario Electricity Support Program (OESP) and the Rural and Remote Rate Protection Program which offer significant benefits to eligible consumers. The province has also launched a new Affordability Fund which supports Ontarians who are not eligible for the Home Assistance Program, and is providing on-reserve First Nations with a delivery credit.

   Rate relief programs such as these have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

   This will reduce bills for everyone, and ensure these programs continue to serve those in need.

   ~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

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Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

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Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

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As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

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Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue.

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And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

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In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

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- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA - material.pdf

From:	Ue, Allison (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Skoberne, Vivienne (TBS); Nelson, Dane (TBS); Walsh, Laura M. (TBS)
Subject:	SCOPA - material
Date:	February 21, 2018 12:35:05 PM
Attachments:	SCOPA Briefing Binder_Feb 21 2018.zip

Hi Martin and Dave

Attached is the revised SCOPA binder for the mock session this afternoon. I believe our comms team has already shared this with your comms teams.

We will have a hard copy for DM Thompson and Gadi. Please share the material with only those that will be attending SCOPA (i.e., individuals listed on page 4 of 7 in Tab 1 - agenda and logistics document).

Thanks,
Allison

Allison Ue
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Treasury Board Secretariat
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allison.ue@ontario.ca

SCOPA Briefing Binder_Feb 21 2018.pdf

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SCOPA Cover Page_20180221.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 21, 2018

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Tab 9_Auditor General Reports.pdf

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A.pdf

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Attachment B. Ministry of Energy Environmental Scan (0 Bytes) cannot be converted to PDF format.

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Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

SCOPA TBS Issues Overview_TBS_20180215.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

Pre-Election Report

Most recently, MPP Vic Fedeli questioned Minister Charles Sousa in the House on **October 23 and December 12, 2017** as to when the government would be bringing the regulation forward confirming it will release a pre-election finance report and when they will be presenting the AG with a copy as per the *Fiscal Transparency and Accountability Act.* MPP Fedeli was critical of the government's transparency and questioned whether Ontarians could trust the government's numbers.

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2018-007 (Media) In October 2017, the Office of the Auditor General of Ontario published a report entitled The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money. In preparing the report, the Auditor General's office reviewed "emails and other documents" provided by a number of provincial departments, including the Treasury Board Secretariat. I request all documents provided by the Treasury Board Secretariat to the Auditor General's office in connection with that report.	**Ontario Fair Hydro Plan Accounting**	March 12, 2018	**Request also received by Ministry of Finance and Ministry of Energy.** TBD
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses"	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD

5) Peripheral: OPG Executive Compensation	and the IESO's recent unqualified audit record.	are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	• Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

		issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public	• C4SE study • MOF

		infrastructure, GDP increases by up to $6, on average, in the long term.	
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	• Example of single use of legislated accounting (Public Accounts 15-16)
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the	• CPA professional code of conduct

		normal course of business.	
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

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PLACEHOLDER

DRAFT

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PLACEHOLDER

DRAFT

A.pdf

Attachment A. Government Response to Auditor General’s 2017 Annual Report (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

Lawvin Hadisi, Minister's Office, 416-326-3839
Bryant Sullivan, Communications, 416-325-1378

ontario.ca/news
Disponible en français

Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
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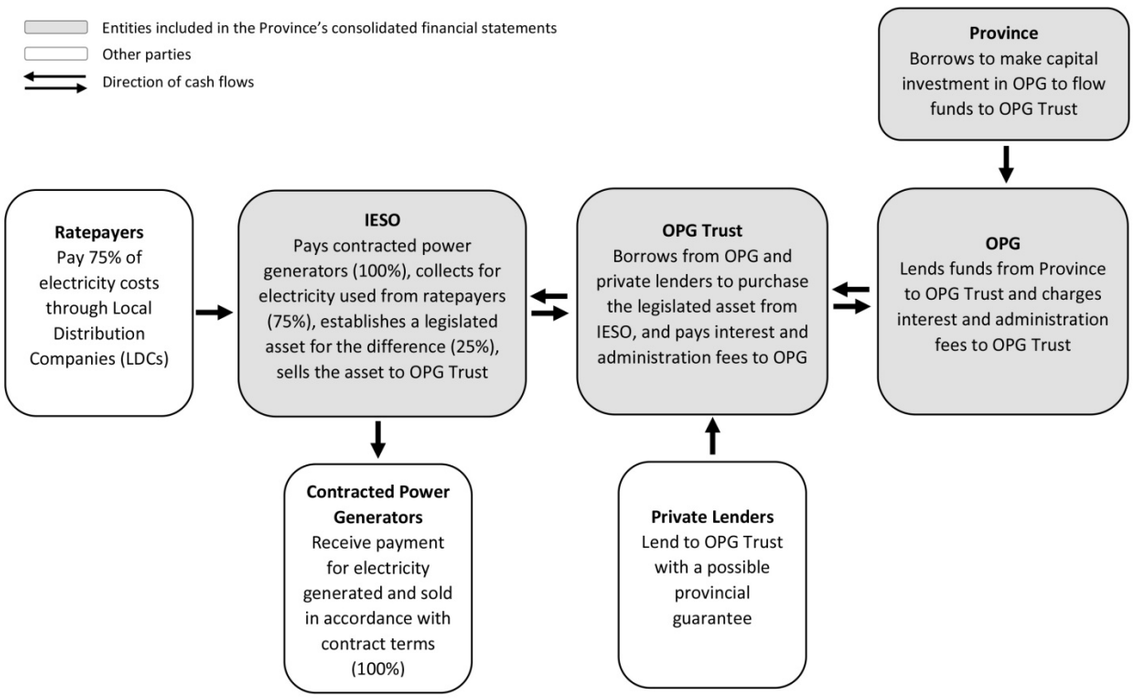
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180213.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Cabinet Office	Secretary of the Cabinet	Steve Orsini
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Ontario Power Generation	Vice President, Chief Controller and Accounting Officer	John Mauti
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

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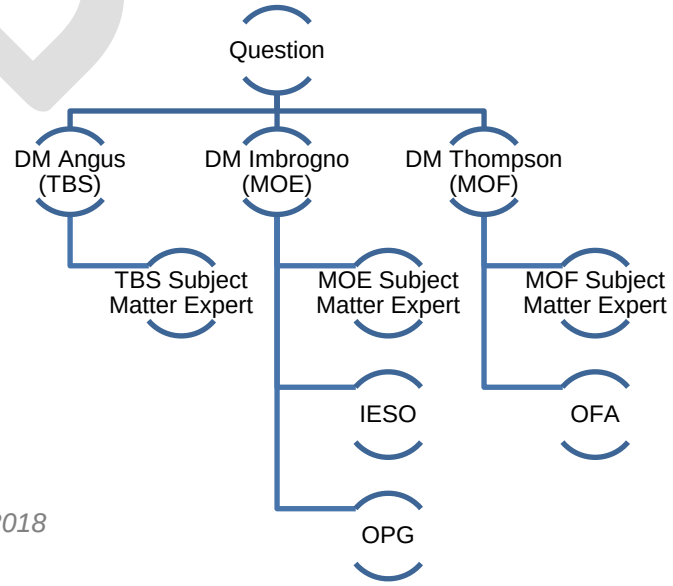
Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

SCOPA Strategic Approach_20180201.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: February 13, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	SVP & CFO, OPG	VP, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Ken Hartwick	John Mauti	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations	IESO/OPG compensation Expenses				

1. Status Table_Ch 2 of AG AR_SCOPA_20180213 - final.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1).”		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General’s interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%.	Continue to monitor progress.

	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and personal income tax*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine when it will issue a*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

2. Response to Clerk_SCOPA_Signed.pdf

Treasury Board Secretariat

Deputy Minister, Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
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Ontario

February 14, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto, ON M7A 1A2

Dear Mr. Koch,

I am writing in response to your letter dated December 20, 2017, regarding the review of Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, February 28, 2018, from 12:30 p.m. to 3:00 p.m.:

Cabinet Office
- Steve Orsini, Secretary of the Cabinet

Treasury Board Secretariat
- Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
- Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat
- Mark Donaldson, Director, Office of the Provincial Controller, Treasury Board Secretariat

Ministry of Finance
- Scott Thompson, Deputy Minister, Ministry of Finance
- Tim Schuurman, Assistant Deputy Minister, Ministry of Finance
- Gadi Mayman, Chief Executive Officer, Ontario Financing Authority, Ministry of Finance
- Ken Kandeepan, Chief Financial and Risk Officer, Ontario Financing Authority, Ministry of Finance

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Ministry of Energy

- Serge Imbrogno, Deputy Minister, Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Ministry of Energy
- Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
- John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
- Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator
- Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator

In addition, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Vivienne Skoberne, Director of Operations at 416-325-9084 or Vivienne.Skoberne@ontario.ca if you require further information.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board Secretariat and
Secretary of Treasury Board and Management Board of Cabinet

c: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Vivienne Skoberne, Director of Operations, Treasury Board Secretariat

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DM HELEN ANGUS

INTRODUCTORY REMARKS

STRATEGIC APPROACH

- Emphasize the role of a public servant is to provide non-partisan advice that is rooted in evidence to government decision-makers.
- Recognize the Auditor General's role and reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province follows Public Sector Accounting Standards (PSAS) and seeks appropriate expert guidance to supplement its own resources on complex or emerging accounting and reporting matters
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

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INTRODUCTION

- Good afternoon and thank you to the members of the Committee for inviting us to be here.
- My name is Helen Angus and I am the Deputy Minister of the Treasury Board Secretariat.
- Before we begin, I'd like to take a moment to introduce the Secretary of Cabinet, Steve Orsini, who is here with us today.
- Sitting beside me are my colleagues:
    - Scott Thompson, Deputy Minister of Finance, and
    - Serge Imbrogno, Deputy Minister of Energy.
- At your invitation, we also have representatives here today from the Ontario Financing Authority, Ontario Power Generation, and the Independent Electricity System Operator.
- We also have other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to appear before the Committee to provide information and answer your questions regarding the consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As you know, Ontario's Public Accounts present the government's consolidated financial statements and give Ontarians an overview of how the province's finances were managed over the last fiscal year as compared to the Budget.
- Producing Public Accounts requires a great amount of teamwork and the collaboration of many stakeholders across Ontario's public sector.
- It is a complex undertaking and we're proud of the work that goes into producing this important accountability document.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's consolidated financial statements.
- This Committee, too, is an integral part of the process, playing an important role in providing legislative oversight and guidance.

Last updated: February 14, 2018
Reviewed by OPCD Feb 14, 2018 – OTB approval pending

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- Within the Treasury Board Secretariat, the Office of the Provincial Controller Division, or OPCD, helps the province to ensure transparency and accountability in its financial reporting through preparing the Public Accounts.

ROLE OF THE PUBLIC SERVICE

- I would like to take a moment to speak specifically about the role of OPCD and that of the other ministry officials who appear before you today.
- As you know, we're members of the Ontario Public Service, or OPS, a professional, non-partisan body.
- Our role is to support and provide impartial advice to the government elected by the people of Ontario.
- As public servants, we carry out the decisions and policies of the elected government, and work to ensure that activities are conducted in an open, fair, and transparent manner.
- We fulfill our duties in accordance with the law, including the Public Service of Ontario Act, and in compliance with our Public Service Oath.
- Members of other professional associations, such as Chartered Professional Accountants employed by the OPS, are also required to comply with their professional codes of conduct.
- It is our role as public servants to continuously conduct our due diligence, apply professional and impartial judgment, and provide our best, objective advice to the elected government to support its decision-making.
- This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

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Evidence-based Decision Making

- A big part of our role as public servants is designing and delivering programs and policies that are both efficient and effective.
- We do this by focusing on evidence-based decision making, and TBS is at the leading edge of a new effort to systematically boost this capacity across the entire OPS.
- Evidence-based decision making uses the best available analytics, research and information on program results to guide decisions at all stages of the policy process.
- It identifies what works, highlights gaps where evidence of program effectiveness is lacking, enables policymakers to use evidence in budget and policy decisions, and relies on systems to monitor implementation and measure key outcomes, using the information to continually improve program performance.
- This approach is helping the government build a better understanding of how its programs are performing by using rigorous evidence to inform choices and lead change in critical public services.
- It just one example of how public servants provide objective advice to the elected government to support its decision-making.
- This same objective lens is applied when we prepare the government's financial statements.

PREPARATION OF PUBLIC ACCOUNTS

- The province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards, also referred to as PSAS.
- These standards are set by an independent standard-setting body in Canada focused specifically on the public sector – the Canadian Public Sector Accounting Board.
- These standards are used by all senior governments in the country, and support informed decision-making and accountability.

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- It is important to highlight that Public Sector Accounting Standards are principle-based. They are not a set of specific prescriptive rules, and using them requires the application of professional judgment.
- Our professional staff exercise this judgment in applying the standards, and, as necessary, consult with external experts and advisors.
- Our professional staff provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- In fact, there is an ongoing collaborative interchange during the Public Accounts process.
- TBS officials work closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices are open.
- Our collaboration is not limited to Public Accounts.
- Where feasible and appropriate, our Internal Audit function assists with efforts on Public Accounts, as well as upcoming work on the Auditor General's follow up processes.
- We continue to build a constructive relationship between both offices, and to make every effort to provide the Auditor General with the information she needs in a full and timely basis in order to support her work and comply with requirements under the Auditor General Act

2016-17 Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted a number of changes to further enhance accountability and transparency in its financial reporting.
- These changes include:
    - The presentation of third party revenues for hospitals, school boards and colleges. The Office of the Auditor General is supportive of this change.

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- The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises, of which the Auditor General is also supportive.
- Accounting for market accounts by the Independent Electricity System Operator, also known as the IESO. The IESO is now recognizing its market accounts assets and liabilities in its financial results, and has adopted rate-regulated accounting.
- And finally, reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards, as well as the recommendations of the independent Pension Asset Expert Advisory Panel.

Open Data

- Transparency was also improved in terms of the presentation of the documents themselves.
- I would like to take a moment to mention the digital tools that were enhanced this past year, to help make the province's finances easier to understand, access, and use.
- These include:
  - Interactive data visualization tools that graphically present details on asset and expense information contained in volume one of Public Accounts;
  - Fully sortable data tables that summarize the financial statements from volume two, and the detailed scheduled payments from volume three; and
  - Downloadable open data sets that provide the five-year trend for government revenue by source, revenue by sector, and statement of operations.
- These data visualization tools help people to better understand the province's finances and are part of the commitment to creating an open and transparent government.

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AUDITOR GENERAL ANNUAL REPORT

- Let's move to what we are here for today: consideration of chapter two, Public Accounts of the Province, of the Auditor General's 2017 Annual Report.
- As I mentioned, the Office of the Auditor General is an integral part of the Public Accounts process.
- In addition to the audit opinion, the Auditor's annual report provides a closer look at the province's finances and processes.
- In the 2017 Annual Report, the Office of the Auditor General makes ten recommendations regarding Public Accounts.
- The government has provided a summary of responses, including any next steps where applicable, in the Summary Status Table that was submitted to the Committee to support our appearance today.
- This table outlines the process and rationale as to why the government chose to either continue with, or adopt changes to accounting treatments.
- We're open to continue to discuss these recommendations and responses with the Office of the Auditor General, particularly regarding the interpretation and application of Public Sector Accounting Standards.
- As I mentioned earlier, it is the role of the public servant to provide our best, objective advice to the elected government, and to comply with codes of conduct, including for our CPAs, the CPA Ontario Code of Professional Conduct.
- This means that, if the professional accountants within the public service do not agree with the Office of the Auditor General, it is not as simple as just agreeing to accept the Auditor General's interpretation.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything, as is the case here.
- However I want to emphasize that we remain open to continuing the discussions with the Office of the Auditor General, in the hopes of achieving resolution.

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MANAGEMENT RESPONSE

- Preparing Public Accounts is intensive, and the government has a great team of experts that lead this process every year.
- Putting this material together requires a lot of work on the part of many people.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- One of these crucial stakeholders is the Office of the Auditor General.
- During the last fiscal year, we worked closely with the Office of the Auditor General to release Public Accounts earlier, and to make sure the lines of communication between both offices were open.
- As I mentioned earlier, there was a regular dialogue with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts.
- Throughout the process, there were regular meetings and touch points.
- These discussions were an opportunity seek the Auditor General's input early, and to ensure there were no barriers to information sharing.
- The government carefully reviewed the recommendations and provided detailed responses to the Auditor General for inclusion in her report in a timely fashion.
- I'd like to take this time to turn your attention to the Summary Status Table, which contains a summary of those responses.
- Because there are a number of subject matter experts here with us today, I will briefly speak to the government's responses, and point you to the appropriate expert should you need more information.
- We will make every effort to provide you with the information you request.
- If, for any reason, we're unable to answer your question here, we'll endeavour to follow up.

Pension Asset Accounting

- On the point of pension asset accounting: During 2016-17, the province's professional staff conducted additional research and analysis following the issuance of a qualified audit opinion from the Auditor General in 2015-16.

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- It was determined that in applying Public Sector Accounting Standards, no valuation allowance was required this past year on either of the jointly sponsored pension plans in question, the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. We will continue to evaluate the need for a valuation allowance on an annual basis, taking into consideration:
    - Changes, if any, in the governance structures of the plans
    - Decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and
    - Changes, if any, in Public Sector Accounting Standards.

Use of External Advisors

- On the subject of external advisors – our responsibility as public servants is to get the best advice we can in order to help the government make well-informed decisions.
- Sometimes this means seeking independent expertise, for their unique professional skillsets and perspectives.
- It's not unusual for ministries to seek third-party advice on complex matters.
- For example, looking to lawyers for a legal opinion on new legislation.
- This is not different in the world of accounting.
- The Treasury Board Secretariat uses external expertise for accounting and financial reporting matters to supplement our own resources, particularly on complex or emerging accounting and reporting matters.
- As I mentioned earlier, this is part of our role as public servants in conducting due diligence and providing our best, objective advice to the government.
- I would like to emphasize that external advisors are used to *supplement* our own internal analysis.
- We're committed to proactively working with the Office of the Auditor General to discuss issues, once our professional staff have completed their analysis.
- Where required by the CPA Ontario Code of Professional Conduct, our staff have, and will continue to advise the Office of the Auditor General, of external advisor involvement.

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Arm's Length Trusts

- With regards to the Annual Report's recommendation on Arm's Length Trusts – we will continue to assess the most appropriate vehicle for meeting policy objectives, which include appropriate oversight and ensuring good value for money with respect to how transfer payments are spent.

- If you have any questions about **Pension Asset Accounting, Use of External Advisors, and Arm's Length Trusts, our TBS representatives** who are here today would be happy to provide further information.

Fair Hydro Plan Accounting

- Shifting to accounting for the Ontario Fair Hydro Plan, I would like to re-iterate that the province has, and will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

"Legislated Accounting"

- Regarding legislation and accounting treatments – the province will continue to prepare its financial statements in accordance with Public Sector Accounting Standards.
- Legislation was used to prescribe accounting that did not align with Public Sector Accounting Standards once, for the 2015-16 Public Accounts.
- At that time, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets to reflect an accounting interpretation consistent with the Office of the Auditor General's, in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign the Statement of Responsibility for the 2015-16 Public Accounts..
- In the context of the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in the legislation that prescribe the accounting treatment that the province must follow.

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- We have **Deputy Imbrogno and representatives from the Ministry of Energy** here who would be pleased to provide additional context and information on the **Fair Hydro Plan and Legislated Accounting**.

IESO Accounting

- With regards to IESO accounting: like the Province, the IESO prepares its financial statements in accordance with PSAS.
- We have **representatives from IESO** here today who would be pleased to provide the Committee with more details about why they opted to make **accounting changes on their 2016 financial statements**.

Earlier Finalization of Financial Statements

- On the point of earlier finalization of the province's consolidated financial statements, I am pleased to say that planning has already begun between the Office of the Provincial Controller and the Office of the Auditor General for the 2017-18 fiscal year.
- The Office of Economic Policy has also been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- We will continue to collaborate in order to support the timely and transparent delivery of Public Accounts.

Province's Debt

- Moving to the recommendation regarding the province's debt, I have my colleague **Deputy Minister of Finance, Scott Thompson**, here beside me.
- Deputy Thompson would be happy to provide more details about the **province's plan to address the debt**, should the Committee wish.
- He would also be able to answer any questions you may have on how we're working towards **finalizing our financial statements earlier**, as it relates to estimating personal and corporate income tax revenue.

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Pre-Election Report

- And finally, speaking to the Pre-Election Report – Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances, and shall do so before the deadline established by regulation.
- Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.
- Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.
- As always, we remain committed to working constructively with the Office of the Auditor General.
- *TBC: Placeholders*

If release is unknown:

- The province takes the Auditor General's recommendations seriously.
- The government continues to deliberate on whether and when to release a Pre-Election report.
- All officers of the legislature are being kept informed and engaged constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

If release is known:

- The government has assured us that they will provide the people of Ontario with an overview of the province's fiscal position in advance of a writ of election being issued on May 9, 2018.
- To this end, TBS, in partnership with the Ministry of Finance, is in the process of drafting the Pre-Election Report.

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- This report will present the province's estimated future revenue and expense, and other details of its fiscal planning processes, before the provincial election scheduled for June 7, 2018.
- The report will cover the fiscal year of the upcoming 2018 Budget and the next two years.
- It will provide information on:
    - the macroeconomic forecasts and assumptions that will be used to prepare the fiscal plan for the upcoming 2018 Budget;
    - an estimate of Ontario's revenues and expenses, including estimates of the major components of revenues and expenses that will be set out in the plan;
    - details of the reserve that will be included in the plan; and
    - the ratio of provincial debt to Ontario's gross domestic product, or GDP.
- Deputy Thompson or I would be pleased to take any questions on that.

CONCLUSION

- In summary, I want to emphasize that we, as public servants, remain committed to following Public Sector Accounting Standards, and providing high-quality financial reporting for the province.
- We exercise our due diligence, and, where necessary, look to other accounting frameworks, external expert analysis to supplement our own, and to other government jurisdictions.
- As public servants, it is our role to provide our best, objective advice to support government decision making.
- We are pleased to provide explanations in response to questions regarding policy matters.
- Finally, as professionals, and as public servants, we respect the Office of the Auditor General and the legislature, and we are committed to continuing to work together constructively.

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- I want to thank the Committee for your time, and we'd be pleased to answer your questions.
- Thank you.

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Attachment B. Ministry of Energy Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   To provide some context for how this issue arose, the Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016, two weeks prior to the deadline for filing the Public Accounts.

   At that time, the government passed a time-limited regulation on the accounting treatment of its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

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During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016, for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, the province confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with

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PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

I would add that the co-sponsors of the Teachers' Pension Plan announced in June 2017, that they would be reducing the contributions to the plan by both the employer and the employee effective January 1, 2018.

The province is open to continue discussions in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing the 2015-16 Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment for net pension assets of the Teachers' Pension Plan and the OPSEU Pension Plan that the province has used

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consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to the province on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not

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receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these market accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its external auditor's audit in its 2017 financial statements by March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?
To confirm whether IESO or TBS should answer this question.

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards

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(PSAS).

The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?
To confirm whether IESO or TBS should answer this question.

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on the issue of using rate regulated accounting – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

See last page of this document for "Comparison between IESO and the eight other ISO entities in North America" table.

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for the 2017-18 Public Accounts, as the implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing.

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The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong record of producing high-quality financial reports on a timely basis. We will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 IESO Financial Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance is clearly stated in the Public Sector Accounting Standards.
- The province's professional staff has appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

Thank you for your question.

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. I will pass this over to my colleagues at the Ministry of Energy to provide further information.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

The province thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

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In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Public Sector Accounting Standards (PSAS) is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity

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cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

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Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

14. The AG claims that when the government first gave Ontarians an eight per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The policy decision regarding the eight per cent rebate, which is borne by the taxpayers, differs from the policy decision on the Global Adjustment Refinancing, which is borne by the ratepayer. Accordingly, the accounting reflects the difference in the economic substance of the policy decisions.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

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It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, U.S. accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.
I will pass it over to my colleagues at the Ministry of Energy to provide further details.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets that differed from the Treasury Board Secretariat staff's interpretation of PSAS, in

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order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The province will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

Thank you for your question. I think my colleagues at the Ontario Financing Authority would be better positioned to answer this question. I will pass it over to them to provide further details to the Committee.

AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

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A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the province to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

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The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?

As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

I am not sure which specific record you are referring to, but I would like to highlight that comments need to be considered as part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.

That statement is not necessarily representative of the final advice put forward nor an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. The Auditor General mentioned emails and other documents that she reviewed to inform her Special Report on the Fair Hydro Plan. Can you provide the Committee with copies of those documents?

As always, we are committed to working constructively with the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

We will look into this question, and make every effort to get the Committee as much information as we can.

4. When does TBS not provide information through a Freedom of Information request?

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Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key messages & QAs to continue to be reviewed for any Pre-Election Report updates.

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   The province remains committed to working constructively with the Office of the Auditor General.

   Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline

established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

2. Is the government required to issue a pre-Election Report?

Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. The Auditor General signalled her readiness to work with the government to examine the pre-election report. Why has the government waited this long to engage with the Auditor?

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

We continue to engage all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

Under the *Fiscal Transparency and Accountability Act,* 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to promptly review the Pre-Election Report to

determine whether it is reasonable and issue a Statement describing the results of the review.

Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.

The province remains committed to working constructively with the Office of the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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OPCD to add content re: transparency of the net pension assets and the Fair Hydro Debt.

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

   When copies of contracts have been requested by the Auditor General, they have and will continue to be provided.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

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When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   As public servants, it is our role to ensure due diligence and provide our best, objective advice to support government decision-making.

   Due diligence includes completing internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

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The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle disputes with the Auditor General? If so, what authority would this panel have?**

   There are no plans to establish a panel at this time.

   If applicable: In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   The province will continue to work with the Auditor General to build on its record of responsible fiscal management and high quality financial reporting.

6. **Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?**

   The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

   Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

   Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. **How much did the Treasury Board Secretariat spend on consultants?**

   The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

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- $167M (or 83 per cent) is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is for services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

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1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on information from the CRA.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

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- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based – they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to

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accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   As you can appreciate, it would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.

   The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

   The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

   The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

   Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. **The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?**

   TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

   TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong record of producing high-quality financial reports

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on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement between the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and were prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Relationship with the Auditor General

4. **What is your relationship with the Auditor General?**

The province has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

The province's professional staff works closely and constructively with the Office of the Auditor General on a number of matters, including the preparation of Public Accounts.

We will continue to work closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
   c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
   d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension

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plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third-party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education, and Advanced Education and Skills Development)

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and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of public sector accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   OPCD to provide response.

DRAFT

Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

DRAFT

3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6 per cent, to 123,410 employees in 2016, from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some pay-outs that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84 per cent.

The province is committed to providing high-quality public services. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

DRAFT

4. Who were the top 10 employees on the entire list and what were their salaries?

The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- six of the 10 are in the health sector;
- two are from Ontario Power Generation;
- one is at the University of Toronto; and,
- one is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

5. We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses have been hidden from the people of Ontario?

The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8 per cent. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6 per cent) of the 996 TBS employees on this year's list, and exclude 940 (94.4 per cent).

Questions about specific public sector organizations should be directed to the organization or ministry responsible.

DRAFT

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

   In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

   With recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

   A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

   To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **What is the Treasury Board Secretariat's role in government advertising?**

   The Treasury Board Secretariat (TBS) is a ministry within the government responsible for leading efforts on accountability, openness and modernization. TBS' role is to deliver good government and public services in the most effective and efficient way possible, which includes providing advisory services and support to Treasury Board/Management Board of Cabinet.

   As a central agency, TBS has the overall policy responsibility for the Government Advertising Act.

   TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

   The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

DRAFT

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

Stated another way, TBS sets the rules, but ultimately the spending is done by the ministries it oversees.

Questions about specific advertising campaigns should be directed to the appropriate ministry.

2. As the ministry with oversight over government financials, how can you justify the increased expenditure on government advertising?

At this point, it is worth clarifying that TBS, as a ministry, does not undertake any advertising campaigns.

TBS administers the Bulk Media Buy Fund and processes transactions in accordance with the Financial Administration Act.

The Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

TBS sets processes to guide ministries in how to account for and determine their spending. However, the actual expenditure that occurs remains the responsibility of the ministries that come to Treasury Board and Management Board of Cabinet for approval.

On a year-over-year basis, the allocation of Bulk Media Buy has increased by $6M.

In last year's Printed Estimates (2016-17), there was an in-year transfer of existing funds from individual ministry budgets into the Bulk Media Buy Fund. This consolidation increased the fund to about $50 million. This was done to drive efficiencies.

The government is continuing that practice this year, in 2017-18. The change from last year's adjusted allocation to this year is $6 million, bringing the balance to $56.7 million.

DRAFT

This increase is attributed to anticipated increases associated with advertising and media costs in three key areas: commercialization of digital platforms, expanded translations and accessibility.

1. With regards to the **commercialization of digital platforms**:
    - The advertising landscape has changed, and the province needs to ensure that its messages reach people in a way that is relevant and accessible to them. Part of the Bulk Media Buy increase is to allow the government to respond to the tools Ontarians are accessing in the digital sphere, including search engine advertising on Google, promoted tweets on Twitter, short advertisements on YouTube, and banner ads on multicultural news websites. For example, the promotion of Ontario's Student Assistance Program campaign included two distinct creative concepts, one aimed at parents for TV and digital and another aimed directly at youth/students on a multitude of digital channels.

2. The second area of increase is due to **expanded translations** for government advertising campaigns:
    - The province continues to work to ensure that campaigns are offered in the languages that are accessible to the people of Ontario. This not only includes expanded translations to reach French-speaking Ontarians, but also Indigenous languages, and others that reflect the multiculturalism in this province, such as Tagalog, Punjabi, Cantonese, Arabic, Portuguese, Polish and many others.

3. The third area reflected in the Bulk Media Buy increase is related to **ensuring compliance with requirements of the Accessibility for Ontarians with Disabilities Act**, or AODA:
    - When the government communicates about important policy changes or what programs and services are available – like vaccinations or new post-secondary programs – it's important that information is accessible to all Ontarians. When we talk about accessibility we mean for example ensure things like closed captioning. The province continues to work to ensure that government advertisements are in compliance with the AODA requirements, which aim to identify, remove, and prevent barriers for people with disabilities.

2. How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?

DRAFT

Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

3. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

   Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As you can appreciate, as a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   As a public servant, it is my role to provide my best, objective advice to support decision-making.

DRAFT

2. **What do you think the Auditor General will do…**

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I believe this may be considered confidential advice provided to Cabinet. However, I will look into it and make every effort to get information back to the Committee.

Confidential

1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. However, we will look into this question, and make every effort to get the Committee as much information as we can.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

DRAFT

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

DRAFT

Comparison between IESO and the eight other ISO entities in North America (Based on ISO entities' 2015 financial statements)

	IESO	AESO	ISO New England	NYISO	MISO	PJM	CAISO	ERCOT	Southwest Power Pool
Location	Ontario	Alberta	US	US	US	US	US	US	US
Accounting framework	PSAS	IFRS (transitioned in 2015)	US GAAP	US GAAP	US GAAP	US GAAP	GASB	US GAAP	US GAAP
Auditors	KPMG	EY	KPMG	KPMG	EY	PWC	PWC	Baker Tilly	BKD
Type of organization	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	Not-for-profit	LLC, non-stock company	Not-for-profit	Not-for-profit	Not-for-profit
Subject to income tax	No	No	No	No	No	Yes	No	No	No
Capital structure	No share capital, accumulated deficit of $97m	No share capital and no equity	No share capital and no equity	No share capital and no equity	No share capital and no equity	Paid in capital of $1m and retained earnings of $7m	No share capital, unrestricted net assets of $125m	No share capital, unrestricted net assets of $8m	No share capital, accumulated deficit of $129m
Governance	Independent board	Independent board	Independent board	Independent board	Independent board	Independent board and Members committee	Independent board	Independent board	Independent board
Regulator	OEB	AUB	FERC	FERC, NY State Dept. of Public Service Commission	FERC	FERC	FERC	Interstate (no FERC), PUCT	FERC issued an order - Fees are regulated by the Board of directors
Recognized regulatory balances	Recognized as from 2016	Assets: $25m; Liabilities: $1m	Assets: $65m; Liabilities: $2m	Assets: $14m; Liabilities: $15m	Assets: $24m; Liabilities: $-m	Assets: $12m; Liabilities: $7m	**Not recognized**	Recognized in 2014 a liability of $34m but nil in 2015	**Not recognized**

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

DRAFT

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

DRAFT

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

DRAFT

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

DRAFT

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information, received on May 23, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 e-mails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

   In response to another request for information, received on August 10, 2017, from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ministry of Finance provided 4,114 e-mails in two batches: 2,956 e-mails on October 16, 2017 and 1,158 on October 25, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The Ministry of Finance has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- The plan to balance the budget limits the increase in net debt to net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The government's recently released third quarter update on 2017-18 continues to project a balanced budget for this year, delivering on a commitment first introduced in the 2010 Budget.

The government's plan to manage the debt focuses on decreasing the net debt-to-GDP ratio, decreasing the interest on debt-to-revenue ratio, and utilizing term extensions.

As the result of Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance's third quarter update on 2017-18 continues to project a balanced budget for this year. The ministry is committed to a responsible fiscal plan and we build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. What are the credit rating agencies' views on Ontario?

All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.

This reflects rating agencies' confidence in our government's fiscal plan.

8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

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Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

1. Long-Form Member Question_Public Accounts Process_20180214.pdf

1. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

PUBLIC ACCOUNTS PROCESS

QUESTION

- One of the recommendations in the Auditor General's report is that the Office of the Provincial Controller should "undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies" to allow the Office of the Provincial Controller to release Public Accounts earlier than the usual late August or September.
- I am curious about what releasing Public Accounts earlier would take on the part of the government.
- I know that the process requires a lot of work on the part of many people, although I'm not necessarily clear on the mechanics of putting the Public Accounts together.
- So, could you outline for us what the process is for putting Public Accounts together every year?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- Having been through the Public Accounts process, you are right when you say that it requires a lot of work.
- From experience, I can tell you it is intensive.
- I will call on Associate Deputy Minister Karen Hughes in just a minute to speak to the process piece, but I'll just take a moment here to talk about why we would like to release the Public Accounts earlier when possible.
- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- Releasing the Public Accounts earlier in the year means they would be released closer to the fiscal year when the spending actually occurred.
- Making sure that the financial statements are released sooner would make the connection between the Public Accounts and the government's spending record more explicit.
- It also ensures we are presenting Public Accounts in a way that allows for greater accountability.
- But it is not an easy task. There are many things that have to happen to make sure we are able to accomplish this goal.
- I know the Office of the Auditor General is supportive of our position and provided a recommendation for how this would be possible.
- A key part of that is engaging stakeholders early and collaborating throughout the process.
- There are a lot of moving pieces that go into Public Accounts, and keeping them all together and coherent is crucial.
- For the 2016-17 Public Accounts, the Treasury Board Secretariat worked closely with stakeholders and the Office of the Auditor General to get Public Accounts out ahead of schedule, which was great.

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- Looking forward, we want to make sure we build on our approach from the 2016-17 fiscal year.
- I will now turn it over to Associate Deputy Minister Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus. I'll reiterate that we are working closely with the Office of the Auditor General to make sure there is adequate time to provide an audit opinion on our Public Accounts, while striving to release them earlier in the year.
- As Deputy Angus said, there are a lot of moving pieces involved in the Public Accounts.
- In fact, that's one of the biggest challenges we face as we work to put them together.
- We are supportive of the Auditor General's recommendation for early action and thorough planning to meet that challenge.
- For the 2017-18 Public Accounts, we have already begun discussions between the Office of the Provincial Controller and the Office of the Auditor General.
- Discussions are happening, as well, between ourselves and Ministry of Finance officials on improvements to economic models used to estimate personal and corporate tax revenues, which we are looking forward to discussing with staff from the Auditor General's office.
- This is a point that was made in the Auditor General's 2017 Annual Report. The recommendation states that part of releasing Public Accounts earlier will be getting the necessary tax revenue estimates as soon as possible.
- We are considering opportunities to work with the Canada Revenue Agency, which supplies tax revenue data to the province, to get that data as quickly as possible.
- I would like to emphasize that work is already beginning on the 2017-18 Public Accounts to ensure that all the pieces we need to line up are in position.

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What is in the Public Accounts?

- I'll take some time now to outline all the pieces that make up the Public Accounts to demonstrate the scope and size of the document.
- As Deputy Angus said, the work that goes into preparing Public Accounts is intensive, and the government has a great team of experts that lead its preparation every year.
- The Public Accounts always begins with a Discussion and Analysis section that summarizes the financial statements and the results at a high level.
- There is also space here for comparison to the Budget and the previous fiscal year and any notes on changes in the presentation or accounting standards of the Public Accounts.
- This is a crucial place for the government to be transparent, so that any changes that affect the accounting from year to year are laid out in a clear and straightforward manner, and results are restated to provide a relevant comparison of results across all years that are shown.
- By sharing that information, anyone reviewing the Public Accounts against the previous year will be able to easily understand changes and take them into account when determining trends over time.
- Beyond the annual report, Public Accounts also include the consolidated financial statements.
- These documents compare government revenue from several sources – such as taxes, federal transfers and other non-tax revenues.
- They also include income from government business enterprises, such as the Liquor Control Board of Ontario, the Ontario Lottery and Gaming Corporation and our utility enterprises, OPG and Hydro One.
- Finally, the include fees and donations which are consolidated for reporting purposes from hospitals, colleges and school boards – the Broader Public Sector

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– to government expenses incurred from providing government programs and services.

- The consolidated statements show the actual government income and spending that happened in the fiscal year, compared to what was laid out in the budget for that year.
- This is a quick way to see if the planned spending activities contained in the Budget were achieved, and if not, to dig a little deeper to understand what happened during the year to account for the change.
- There is also a direct comparison to the previous year's Public Accounts so anyone can see at a glance if income or expenses are up or down from the previous fiscal year, and again, to explore what has changed from a year-over-year perspective.
- And finally, there are three supporting volumes in Public Accounts.
- Volume One contains ministry statements and detailed schedules of debt and other items.
- In this volume, the revenue from taxes, non-tax revenue and income from government business enterprises, like the LCBO, are stacked up alongside the expenses of government ministries.
- These sources of income and expenses are also explained in detail in Volume One.
- Volume Two contains individual financial statements of government organizations, business enterprises and other financial statements that are consolidated into the Public Accounts.
- This volume is where you find agencies like Metrolinx and the Independent Electricity System Operator, as well as organizations like the Workplace Safety and Insurance Board, to name a few.
- Due to printing limitations, we do not include the nearly 300 broader public sector organizations in Volume 2 – all the hospitals, school boards and colleges.
- However, these results are instead summarized by sector in the consolidated financial statements.

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- Each financial statement from these organizations provides valuable insight into the financial situations of the organizations, as well as an explanation of the work that those organizations undertake.
- They also lay out any changes in accounting presentation that took place since the previous financial statement.
- Finally, Volume Three details payments from the government to vendors and transfer payment recipients over a certain threshold as determined by the type of expense.
- For example, all travel payment for employees in excess of $10,000 per year are listed by the name of the employee. This threshold does not apply for travel of ministers, deputy ministers or parliamentary assistants.
- Payments to vendors in excess of $50,000 per year are included here as well, as another example of expense thresholds.
- This group includes hospitals, community agencies and schools.
- It also includes payments to vendors for goods and services, such as staffing agencies and telecom providers.
- As you can tell, there is a lot of information in the Public Accounts on the financial state of Ontario.
- When it comes to pulling that information together, there is a lot of work and collaboration across government ministries, agencies and with independent overseers like the Office of the Auditor General.

How TBS Works with Other Ministries

- In order for Treasury Board Secretariat to prepare accurate and timely Public Accounts, we rely on all ministries and other government entities to share their financial statements with us.
- To that end, we work closely with the Ministry of Finance each year to make sure ministries are sharing information as quickly as it is available.

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- We have regular weekly meetings to check in and make sure everything is on track, and ensure there are no barriers to information sharing.
- Treasury Board Secretariat identifies places where issues might arise and proactively engages the groups that will be required to address them.
- For example, we are currently working with the Office of Economic Policy at the Ministry of Finance to discuss risk considerations related to the economic models we use to estimate personal and corporate tax revenues, as mentioned earlier.

How TBS Works with the Office of the Auditor General

- Another crucial stakeholder we work with is the Office of the Auditor General.
- As an important part of ensuring accountability, Public Accounts must always be reviewed by the Office of the Auditor General.
- In the Public Accounts, the Auditor General includes an audit opinion in the Consolidated Financial Statements section of the Annual Report, which begins on page 49 of that document for the 2016-17 fiscal year.
- The Auditor General reviews the Public Accounts and also provides recommendations in an annual report. As you know, we are discussing Chapter Two of that report today.
- During the last fiscal year, our officials worked closely with the Office of the Auditor General to release Public Accounts and to make sure the lines of communication between both offices were open.
- The Office of the Provincial Controller scheduled regular meetings with the Office of the Auditor General throughout the preparation of the 2016-17 Public Accounts and sought the Auditor General's input early.
- The result was that we continued to build a constructive relationship between both offices.
- And from this relationship, the government was able to share the Public Accounts ahead of the statutory deadline for their release.
- Through working more closely with the Office of the Auditor General, we hope to continue these important discussions about the province's accounting.

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- As I've mentioned, work for the 2017-18 Public Accounts has already begun.

What Guides Public Accounts Accounting Decisions?

- Once our officials have gathered the right information and started to engage with key stakeholders, the Treasury Board Secretariat makes decisions about how to present the data.
- I'll just briefly describe how the government formulates its position on accounting methods.
- As you've heard, our professional staff provide objective advice to support government decision-making. This duty is governed by the Oath or Affirmation of Public Service that every public servant must take.
- Beyond that, many of the people preparing Public Accounts are Chartered Professional Accountants, who comply with their own professional codes of conduct.
- Therefore, the preparation of Public Accounts is guided by the need to follow our oath of Public Service and by the professional standards of the staff who do the work.
- Above all, when it comes to accounting in the public sector, the province relies on Public Sector Accounting Standards to guide its decision-making.
- The standards, which are set by the Canadian Public Sector Accounting Board, are the rules that all governments in Canada must follow in their accounting.
- The Public Sector Accounting Standards are a set of principles that guide decisions made about public sector accounting.
- But because accounting is often complex and new accounting situations can emerge rapidly, the standards do not always provide explicit instructions on how to approach specific accounting situations.
- It is sometimes necessary to look to other accounting methods to support preparing Public Accounts.
- In fact, this reality is recognized in the Public Sector Accounting Standards Handbook.

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- To quote briefly from the handbook.[1]
- *"No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise."*
- It continues, *"As a result, matters may arise that are not specifically addressed in the primary sources of Generally Accepted Accounting Principles."*
- It goes on to say that *"It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances."*
- So in striving to follow the Public Sector Accounting Standards, at times it is necessary to refer to other sources in addition to the PSA Handbook itself.
- The Treasury Board Secretariat has several ways that our experts can determine how to follow the spirit of the standards in specific instances.
- One way is that we can use external expertise to supplement our own resources on complex or emerging accounting and reporting matters.
- External advisors are engaged to provide advice and guidance to supplement internal analysis.
- The Treasury Board Secretariat does not always seek external advisors, but it is one way to gather expertise from a range of sources on complicated accounting questions.
- To quickly recap what I've just described, our professional staff at the Treasury Board Secretariat rely on the Public Sector Accounting Standards to guide their decisions.
- When there are accounting situations that arise that do not have explicit guidance in the standards, they make judgement calls based on their expertise and the guiding principles of their Oath or Affirmation of Public Service, and the obligations of their profession.

[1] Public Sector Accounting Standards Handbook, PS1150.07

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- To inform those decisions, research and analysis can be conducted internally and they can seek the advice of external experts as well.
- Taking into account the expertise and advice we have access to, we make a decision on how the government should present its financial statements that is in line with the Public Sector Accounting Standards.

Conclusion

- The Treasury Board Secretariat is working with ministry partners and other stakeholders to make sure that the Public Accounts are fair, accurate and timely.
- We at the Treasury Board take our duty to prepare Public Accounts very seriously.
- There are a lot of moving pieces that go into the Public Accounts and coordinating everything is a complex undertaking.
- As I've outlined, we are already collaborating with key groups to deliver the 2017-18 Public Accounts on time or ahead of schedule if possible.
- We are acting on the recommendation of the Auditor General to make sure that we can share the Public Accounts sooner, while continuing to present the Public Accounts accurately.
- We will continue to rely on our expert team and the advice and support of our partners in preparing the Public Accounts.
- Thank you.

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2. Long-Form Member Question_Open Government and Public Accounts_20180216.pdf

2. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

KAREN HUGHES, ASSOCIATE DEPUTY MINISTER

OPEN GOVERNMENT AND PUBLIC ACCOUNTS

QUESTION

- The Public Accounts is an important part of the budgetary cycle that demonstrates the government's ongoing commitment to transparency and accountability.
- How is the government making sure that the Public Accounts are open and accessible to everyone in Ontario?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for this question.
- It actually dovetails quite nicely with another Treasury Board Secretariat responsibility: Open Government.
- In a minute I'll call on Associate Deputy Minister Karen Hughes to speak in more detail about the relationship between Open Government and the Public Accounts.
- The Office of the Treasury Board oversees both the Open Government Office, as well as the Office of the Provincial Controller Division, which as you know is responsible for preparing the Public Accounts.
- Ontario has always been committed to openness and transparency in its finances as a part of good accounting practice and responsible governance.
- Open Government is a worldwide movement aimed at creating more open and transparent government.
- There are several ways jurisdictions are working to open government up, all of which typically involve sharing government information more freely, including data, and consulting with the public in a more accessible and open way.
- As part of Ontario's commitment to opening government, we at TBS are looking at how we share all of Ontario's information, including the Public Accounts.
- Open Government has brought a whole other set of considerations and skills to bear on how the officials in the Treasury Board Secretariat approach financial reporting for the province.
- At the end of the day, it's about ensuring we're doing everything we can to put the "public" in the Public Accounts.
- We have done a lot of work with Open Government to make sure that everything TBS does, including the Public Accounts, follows the principles of Open Government.

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- And if you look at the presentation of the Public Accounts on Ontario.ca, you will see a lot of the good work our officials have done to make the information easier to access, use and understand.
- At this point I'll pass it over to ADM Karen Hughes who can provide you with more details.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- To provide some context, we recently went through an internal reorganization at the Treasury Board Secretariat.
- As a result of this reorganization, the Open Government Office is now a part of the Office of the Treasury Board.
- This new way of organizing the Treasury Board Secretariat makes a lot of sense.
- One of the key responsibilities of good government is being open and transparent about the finances of the province.
- Having the Open Government Office within the Office of the Treasury Board formalizes what our staff have been doing for a long time – working to share as much information as possible about Ontario's finances with all manner of stakeholders.
- When considering how Ontario can enhance its Public Accounts reporting, the government turns to the advice of experts in the Open Government Office.
- The Open Government team is connected into the wider Open Government movement. This wider movement is made up of both other national and sub-national jurisdictions, as well as the public.

  Ontario did a lot of this work before the Open Government movement, of course, but the principles of Open Government have helped the public service further enhance its financial transparency in a number of ways.

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What is Open Government?

- To explain how the Public Accounts is benefiting from Open Government, I will give a very brief overview of Ontario's Open Government strategy, and then some specifics around how Ontario's approach has guided the enhanced presentation of the province's Public Accounts.
- The first part of the strategy is **Open Dialogue.**
- Open Dialogue is about engaging a broader, more diverse range of Ontarians to develop stronger policies and deliver more responsive services.
- Just one example of Open Dialogue in making financial decisions is the annual Budget Talks series, where Ontarians are able to put forward ideas that help shape government policies and programs.
- The second part is **Open Information.**
- Open Information is about proactively releasing information, like government directives, so that Ontarians have access to what they want to know, and what they need to know about their government.
- One directive released, for example, is the Travel, Meal and Hospitality Expenses Directive. This directive sets out what is appropriate for public servants to expense when travelling for work. These expenses are, in turn, reported in the province's Public Accounts.
- The third part of the strategy is Ontario's **Open Data**.
- Open Data is about improving access to government data by proactively sharing government datasets online.
- Open Data is such a critical facet of open government that Ontario has adopted the Open Data Directive to make all government data open by default, and the International Open Data Charter, which guides Ontario and other signatory jurisdictions in opening their government data.

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Why is Open Government important to the Public Accounts?

- Open Government is important to the Public Accounts because when presented with reams of information, as in the Public Accounts, open government prompts the government to ask "so what?" on behalf of the public.
- What information will be important to the public, why is it important, and how should that information be shared?
- The Public Accounts are one of three key reporting methods that demonstrate how the province is spending its money.
- The first tool is the budget, which comes at the beginning of the fiscal year, and proposes items and makes general spending commitments for the province.
- The second tool is Estimates, which forecast the anticipated costs of programs and services in more detail than what is presented in the budget.
- The last tool, and the one we are discussing today, is the Public Accounts, which provides detailed accounting for what was actually spent, at the end of the fiscal year.
- Since the Public Accounts present the government's audited financial statements and provide a picture of how finances were managed over the last fiscal year, it is a crucial component in making sure government spending is appropriate and reasonable.
- So considering how important that information is for Ontarians, it's important that the Public Accounts are released transparently and openly so citizens can easily access it.
- In order to make sure the Public Accounts are truly of value to the public, as public servants it is critical that we work to help make the information reported in the Public Accounts understandable to the majority of Ontarians.
- This means making Ontario's financial information easier to access, use and understand.
- So thanks to Open Government, our officials have greatly improved how the Public Accounts are shared with the public.

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Updates to Ontario.ca

- I will describe some of the ways we have integrated Open Government with the Public Accounts, beginning with the Public Accounts webpage.
- The Treasury Board Secretariat became responsible for producing the Public Accounts in the 2014-15 fiscal year, taking on the work previously performed by the Ministry of Finance.
- That year, web hosting for the Public Accounts also moved to the new, fully accessible Government of Ontario website – Ontario.ca.
- For the 2015-16 Public Accounts, Treasury Board Secretariat updated the Ontario.ca page to make the content easier to navigate, using a number of open government principles, making the information more accessible and easier to find.
- The page now has a more logical flow, beginning with a high-level definition of the Public Accounts right at the top of the page, and increasing detail as a person scrolls down.
- At the very top, there is also a call-out box that offers a “just the essentials” look at the Public Accounts for readers who may not have a lot of time or expertise to dig through the full report.
- When a person looks at the “just the essentials” Public Accounts page, they can find highlights of the province’s spending and a simple breakdown of the province’s revenue.
- Also positioned prominently on the page is a short animated video that explains the Public Accounts in a straightforward way, using plain language terminology.
- The video outlines why the government releases the Public Accounts each year, and the value of this report to Ontarians.
- This video is hosted on YouTube by the Ontario government account, and remains embedded on the Public Accounts page each year.
- The content is meant to be evergreen so that as new editions of the Public Accounts are posted, the video remains relevant.
- We also added a reader’s guide to the Public Accounts.

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- This guide is designed to help people who are not familiar with financial statements and the annual report better understand the various pieces that make up the document.
- This guide provides an overview of the Public Accounts, related legislation and definitions of key terms.
- There is also a link on the main Public Accounts page to the past Public Accounts going back as far as the 1994-95 fiscal year so that the public has easy access to audited finances dating back over 20 years.
- Having that information easily available online allows users to chart changes over time and better understand the current state of Ontario's finances to get a sense of the trajectory the province is on.
- The webpage also links to an explanation of Ontario's financial cycle to put the Public Accounts in the broader context of Ontario's finances, and to further underline why the Public Accounts are important.

Digital Tools

- Building on these improvements to web content, the Treasury Board Secretariat has collaborated with Cabinet Office and the Ministry of Finance to develop new digital tools to help present the Public Accounts data in innovative visual formats.
- For example, in 2016, our officials implemented fully searchable tables created from data included in the 2015-16 Public Accounts.
- These tables are found on the Ontario.ca Public Accounts pages dedicated to all three volumes of the Public Accounts.
- The data is divided into three tables, sorted by government organizations like Cancer Care Ontario or Legal Aid Ontario, government businesses like the LCBO, and government trusts like the Workplace Safety and Insurance Board.
- Each entity included in the Public Accounts is listed in the corresponding table for its category, along with that entity's assets and liabilities.
- With this tool, a person looking for a particular government entity could type the organization's name into the search bar and have the results show up right away.

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- Our officials also created a new digital tool that allows users to explore where the province's money is going in more detail, using an interactive widget.
- This tool shows all ministry spending represented as multi-coloured rectangles. Together, they make up one large rectangle that represents all government spending.
- At the top level of the visual, someone using the tool can see the comparative size of ministry spending as a proportion of the entire amount of government spending.
- If a user clicks on a ministry's rectangle, the tool zooms in to show only that ministry and breaks down spending within the ministry into smaller rectangles.
- Each smaller rectangle shows how spending in that specific ministry breaks down, and compares the size of spending for different programs and services.
- A second click enables users to even dig deeper into the spending itself.
- This tool provides an interesting, interactive look at how government spending fits together to make up the entire amount that the government spends each year.
- It however doesn't show financial reimbursements, recovers or accounts that are in a net-negative position.
- These tools are also fully accessible as per the requirements of the Accessibility for Ontarians with Disabilities Act.
- This includes adding alternative text to the image so it can be interpreted by anyone using a screen reader or other assistive technology.
- The government codes the written portions of the Public Accounts volumes in HTML. This is important so that the pages are easily navigated for people using screen readers.
- The government also ensures that all documents that are available for download are fully accessible.

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Open Information and Open Data

- In addition to all the work our officials have done to help Ontarians understand the Public Accounts, Ontario has also released the web content for the Public Accounts under Ontario's Open Government Licence.
- This means that the web content for the Public Accounts can be used worldwide, royalty-free, forever – provided anyone using the information follows the terms of the licence.
- Anyone can copy, modify, publish, translate, adapt, distribute or otherwise use the information in any medium, mode or format, for any lawful purpose.
- The raw spreadsheets for the three volumes of the Public Accounts are also available online in the Ontario Data Catalogue.
- Like much government data, the financial data that the Treasury Board Secretariat uses to create the Public Accounts is opened to the public so it can be used in innovative ways.

Conclusion

- Open Government has had a huge influence on reporting of the Public Accounts in the last few years.
- The province is enhancing how the Public Accounts are reported by explaining what is in the Public Accounts and providing the Public Accounts to Ontarians in a way that is easier to understand.
- The raw information and data that the government compiles for the Public Accounts is also being shared openly so that people can access the information and use it however they see fit, within guidelines.
- All of this Open Government work is done to make sure that something as important as the Public Accounts is shared not just with the legislature, but with Ontarians and other interested people, worldwide.
- The Treasury Board Secretariat is proud that the Public Accounts is one very clear way we are able to promote openness in Ontario's finances.
- Thank you.

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3. Long-Form Member Question_Engagement Between TBS and OAGO_20180215.pdf

3. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

ASSOCIATE DEPUTY MINISTER KAREN HUGHES

ENGAGEMENT BETWEEN TBS AND OAGO

QUESTION

- We know there are a lot of things that go into producing the Public Accounts, but it seems like focus is always on a few items.
- I'd like to know a bit more about the broader context of the Treasury Board Secretariat's work on the Public Accounts, and specifically how TBS works with the Office of the Auditor General throughout that process.
- Can you describe how you engage with the Office of the Auditor General to produce the Public Accounts?

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ANSWER

Deputy Minister Angus Introduction

- Thank you for your question.
- I'm going to pass it over to Associate Deputy Minister Karen Hughes to get into some of the details, but I'll just start by saying that TBS is committed to continuing to foster a collaborative relationship with the Office of the Auditor General.
- Our officials plan regular meetings with the Auditor General and her staff to make sure the government is able to deliver the Public Accounts in a timely way.
- As I'm sure you can appreciate, there is a lot of work that happens behind the scenes, in the lead up to tabling the Public Accounts, much of it involving the Office of the Auditor General.
- This valuable interaction is not just limited to the Public Accounts report itself – there are many instances where the Office of the Auditor General provides input on things that feed into the Public Accounts to make sure that the internal controls on finances for ministries and agencies remain strong.
- So even before everything is compiled into the Public Accounts, there is lots of work being done with the Office of the Auditor General to make sure the Public Accounts process goes as smoothly as possible.
- I will now hand it over to Associate Deputy Minister Karen Hughes, and she can provide more detail on how our two offices work collaboratively together.

Karen Hughes, Associate Deputy Minister

- Thank you, Deputy Angus.
- The province works very hard to make sure we are keeping the lines of communication open between the government and the Auditor General.
- As Deputy Angus mentioned, the province's relationship with the Office of the Auditor General extends beyond just the Public Accounts.

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How OPCD Works with OAGO Generally

- For example, one of the things that enables the Public Accounts process to run smoothly is the robust financial controls that are in place across government.
- When it comes time to compile the Public Accounts, the financial statements that the Treasury Board Secretariat relies on must be accurate and complete in order to make sure that the process works as it should.
- To do this, the Treasury Board Secretariat ensures that ministries and agencies follow financial best practices through what is referred to as the Certificate of Assurance Process.
- This process is undertaken by the Office of the Provincial Controller Division and affects all ministries.
- The Certificate of Assurance Process ensures that ministries are maintaining an effective system of internal controls to provide reasonable assurance that financial reporting is reliable and in compliance with all applicable legislation, regulations, directives and policies.
- The Certificate of Assurance process results in an attestation, which is used to support the Provincial Controller's sign-off on the publication of the Consolidated Financial Statements.
- Those statements make up a major part of the Public Accounts.
- All ministry Certificate of Assurance submissions are provided to the Office of the Auditor General.
- Sharing these submissions with the Auditor General ensures that the government is operating transparently when preparing its finances, including the Public Accounts.
- If there are any questions about a certificate, staff from the Office of the Provincial Controller are available to meet with the Office of the Auditor General to discuss it.
- Another example of this collaboration in action is the annual SysTrust Audit, which is completed by another team within the Office of the Provincial Controller Division.

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- The SysTrust Audit process evaluates the reliability of government financial systems, including the Integrated Financial Information System, known as IFIS, and the Workplace Information Network, known as WIN.
- The SysTrust Audit forms a part of the Certificate of Assurance attestation that I just described.
- This audit report is also provided to the Office of the Auditor General, so it can provide input on the audit's methodology and results.
- The staff at the Office of the Provincial Controller Division correspond with the Office of the Auditor General on a regular basis during the SystTrust Audit to ensure a consistent understanding.
- These are just two examples of how our officials engage the Office of the Auditor General in processes that support the preparation of the Public Accounts, before the formal Public Accounts process even begins.

How OPCD Works with OAGO on Public Accounts

- That formal process usually begins in March, prior to the government's fiscal year end.
- These meetings continue throughout most of the rest of the year, culminating in the audit opinion of the Consolidated Financial Statements, the Audit Findings Report to management, and the tabling of the Public Accounts in the legislature.
- All this usually occurs by the end of September at the latest, on or before 180 days have passed since the end of the fiscal year.
- The Office of the Provincial Controller and the Office of the Auditor General meet regularly throughout this time.
- In these meetings, representatives from both offices discuss areas of audit focus and information requirements.
- Once the Office of the Provincial Controller knows what information the Office of the Auditor General needs to conduct the audit, it facilitates gathering the information from ministries and agencies.

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- The Office of the Provincial Controller also provides analysis related to any items that might arise while preparing the Public Accounts.
- These items can include how reporting works for new government policies, information on new government agencies, and new accounting standards that the province has adopted in presenting the Public Accounts.
- The government also reviews the Audit Planning Report produced by the Office of the Auditor General, and works with the office to ensure the completeness of the audit plan.
- Reviewing the Audit Planning Report provides an opportunity for the government to identify potential areas of improvement for future Public Accounts.
- The government also maintains a tracking list of items that arise during its preparations, along with the responses or resolutions to them.
- Throughout the audit, the Office of the Provincial Controller is engaged with the Office of the Auditor General to ensure that information from ministries is flowing freely.
- While the Public Accounts is being compiled, the Office of the Provincial Controller Division shares draft versions of the province's financial statements with the Auditor General's office.
- The Financial Statement Discussion and Analysis is also shared with the Office of the Auditor General to provide time for review and comment.
- This allows the government time to incorporate comments that improve the communication and clarity of the Annual Report and Consolidated Financial Statements.
- This approach ensures that the Office of the Auditor General is able to complete a full and thorough review of the government's records.

Examples of Success in this Approach

- The province and the Auditor General work closely to make sure that the government is accountable when it comes to Ontario's finances.

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- This constructive relationship has allowed Ontario to make great strides in how it presents the Public Accounts.
- I'll give some examples of times that collaboration with the Office of the Auditor General has helped TBS release a stronger, more transparent set of Public Accounts.

Changes to Third Party Revenues for Hospitals, School Boards and Colleges

- One change that the government made is in how third party revenues are shown in the Public Accounts document.
- Third party revenues in this context just means money that comes from things like hospitals, school boards and colleges.
- In total, this means about $8.2 billion from things like tuition fees, patient fees, research grants and donations are no longer shown separately from government revenues.
- These amounts are not included in the revenues of the ministry that oversees the third party organization.
- This also means that the liabilities and expenses of third party organizations are shown with the ministry that oversees the organizations.
- All assets, liabilities, revenues and expenses of hospitals, school boards and colleges appear as a line in the consolidated financial statements in the Public Accounts.
- In addition to that, the interest on debt of these organizations, which comes out to about $591 million, is now included as interest paid on the debt of the ministries responsible for these organizations.
- These changes do not affect the Province's annual deficit, accumulated deficit or debt. It is just a different way to show the same amount of money in a more transparent way.
- The change also brings Ontario in line with how other senior Canadian governments show third-party expenses in their accounting.

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- In the interest of transparency and comparability, we have changed last year's dollar amounts for this set of Public Accounts to reflect the new accounting.
- The same thing was done to the dollar amounts from the 2016-17 Budget. The budget numbers presented in the 2016-17 Public Accounts now align with this new accounting.
- Both these changes allow for an accurate and fair comparison of this year's Public Accounts to other related financial documents.
- The changes were made to comply with the Public Sector Accounting Standards.
- And, the Office of the Auditor General was supportive of these changes.

The Adoption of International Financial Reporting Standards for Energy Sector

- Another change supported by the Auditor General is the adoption of International Financial Reporting Standards when accounting for rate-regulated government businesses.
- Let me give some quick context on what the International Financial Reporting Standards, or IFRS, are.
- The standards are set by the IFRS Foundation, a not-for-profit, public interest organization established to develop a single set of high-quality, understandable and globally accepted accounting standards.
- By developing these standards, the IFRS Foundation brings transparency, accountability and efficiency to financial reporting around the world.
- Ontario is now using the IFRS standards to account for its rate-regulated government businesses.
- It can sound like jargon, so in the interest of being clear let me give a breakdown of what a rate-regulated government business is.
- When I say government businesses, I mean government organizations that:
    - Are legal entities that are separate from the government with the power to draw up and sign contracts in their own name. Government businesses can sue on their own behalf and be sued.

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  - They have the financial and operating authority to do business without constantly seeking government permission.
  - They serve individuals and non-governmental organizations first and foremost, operating mostly off of money made selling their goods and services.
  - And finally, they can maintain their operations and meet their financial obligations without relying on the government ministry that they report to.
- "Rate-regulated" government businesses are just government businesses that have to set the rates they charge for their goods and services at a specific level due to government regulations.
- Rate-regulated government businesses can't change what they charge based on the market – they have to follow regulations.
- The Government of Ontario has only two rate-regulated businesses included in the 2016-17 Public Accounts – Ontario Power Generation and Hydro One.
- The financial activities of these two government businesses are recorded in the Public Accounts using something called the "modified equity method."
- This means their combined assets are included in the government's financial statements under the line titled "Investment in Government Business."
- Their income is shown as a separate item from their assets. That line is called "Income from Investment in Government Business Enterprises."
- For government businesses that are not completely owned by the government, for example, Hydro One, the dollar amounts shown in the Public Accounts are calculated based on the percentage of the government business owned by the government during the fiscal year.
- So in simple terms, if the government owned 60 per cent of a rate-regulated business, and the income of that business was $100 for the year, the Public Accounts would reflect an income of $60.
- By adopting the IFRS standards in Ontario's presentation of rate-regulated government businesses, the province is bringing its reporting in line with international standards.

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- In previous years, the government has used the Generally Accepted Accounting Principles in the United States to guide its accounting presentation.
- Historically, the two standards have shown the provincial deficit in pretty much the same way, so there is no change to the province's deficit.
- However the change brings us in line with the appropriate standards, and we are pleased to make it.
- In the future, the government will continue to follow the IFRS standards for any rate-regulated government businesses.
- As I mentioned before, this change has the support of the Auditor General and is an example of how working closely with the Office of the Auditor General is ensuring Ontario remains transparent and open in the province's financial reporting.

Timely Release of the Public Accounts

- Finally, one change that the government has suggested is releasing the Public Accounts earlier in the year.
- Usually, the Public Accounts are released in late August or early September.
- However, in order to provide that information to Ontarians in as timely a way as possible, the government wants to ensure that the Public Accounts are released as soon as possible after the end of the fiscal year.
- Earlier release requires the Office of the Provincial Controller to connect early with many stakeholders, including the Auditor General, to make sure any audit questions are addressed as soon as possible.
- The Treasury Board Secretariat has been working closely with the Office of the Auditor General to identify potential audit items early, proactively answer any questions and engage stakeholders in the discussion.
- Another point that the Auditor General made about releasing the Public Accounts early is that Ontario relies on tax revenue data from the Canada Revenue Agency.

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- Thanks in part to this flag, the province is considering opportunities to work with the Canada Revenue Agency to get personal and corporate tax revenue information earlier.

Conclusion

- In conclusion, TBS remains committed to maintaining a collaborative relationship with the Office of the Auditor General.
- Many of the changes that the government has suggested are supported by the Auditor General, and government staff work closely with their office throughout the year to keep the lines of communication open.
- The planning and preparation that both the Auditor General's office and the Treasury Board Secretariat are doing together allows us to have a smoother process each year.
- By working together on many items, including the SysTrust Audit and the Certificate of Assurance process, the Treasury Board Secretariat is ensuring that the Public Accounts process operates smoothly on all levels.
- Thank you.

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4. Long-Form Member Question_IESO Use of Market Accounts_20180214.pdf

4. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

IESO USE OF MARKET ACCOUNTS

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QUESTION

- I see that the Public Accounts report includes some discussion on the IESO – the Independent Electricity System Operator – and how it is showing the market accounts in its financial statements.
- For the average Ontarian, acceptance of market accounts is very "inside baseball" – it's not something you hear about all the time.
- That said; I think it's important to clarify for the people of Ontario how the government makes decisions on accounting.
- As such, my question is: Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements?

ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. Once again I am going to hand this over to Cindy Veinot, our Provincial Controller, to run you through the details. But I'll start by giving a brief explanation of the IESO.
- The IESO is the Independent Electricity System Operator. It is responsible for planning Ontario's electricity needs.
- In fact, if you visit its website, you can see right now how much power is being used in Ontario, and how much the IESO anticipates the need will be in the next hour, as well as at peak hours.
- You can also see the overall potential capacity that can be called upon if needed in terms of power generation.
- That might seem like it is unrelated to accounting, but in reality the fact that we need to oversee the electricity system and anticipate the demand for it is at the root of the question about the IESO's market accounts.
- In order to meet demands, the IESO operates and settles the electricity wholesale market. It brings together participants in the marketplace to ensure that suppliers and customers can buy and sell electricity reliably.
- Representatives from the IESO and the Ministry of Energy could tell you more about that.
- The Treasury Board Secretariat has a role in this, despite the fact that we are not subject matter experts on electricity supply and demand.
- As you know, the Treasury Board Secretariat is responsible for producing the Public Accounts and making sure that government-related organizations, such as the IESO, are providing accurate and transparent accounting.
- The role of the Treasury Board Secretariat is not to tell agencies how to do their accounting, but rather it's to ensure that when we receive that accounting, it has been done according to public sector accounting standards.

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- In the case of IESO, its board of directors made the decision to recognize its market account assets and liabilities in its financial statements.
- This was supported by the IESO's internal audit committee and a third-party independent external auditor.
- The principles used in reporting the IESO market accounts assets and liabilities have been used in the past.
- The IESO made this decision openly and transparently, and reflected it in its annual report which is available online.
- As a result, the Treasury Board Secretariat is satisfied that the agency has done its due diligence on accounting, and accepts its professional decision.
- At this point, I will hand it over to our Provincial Controller, Cindy Veinot, who can provide more details.

Cindy Veinot, Provincial Controller

- Thank you, Deputy.
- As the Deputy outlined, the Independent Electricity System Operator is responsible for operating the settling the electricity wholesale market.
- In this role, it oversees about $17 billion in transactions every year.
- In 2016-17, the IESO decided to recognize its market accounts assets and liabilities – the things that make up those $17 billion in transactions – in its financial results.
- The market accounts assets are the amounts that are due to the IESO from power distributors who have taken electricity and supplied it to customers.
- The market accounts liabilities are the amounts that the IESO owes to power producers for taking that electricity.
- The IESO has chosen to recognize these markets accounts on its books for transparency reasons.
- It has determined that showing both the amount that is owed to the IESO, and the amount the IESO owes to others, better reflects the financial position of the IESO-administered markets at year-end.

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Role of the Treasury Board Secretariat

- I want to reiterate what Deputy Angus said about the role of the Treasury Board Secretariat in this change.
- TBS is not a subject matter expert on energy, or on the operations of the IESO. What we do know about is accounting.
- Based on our knowledge of accounting practices in the public sector, when we are satisfied that organizations sharing their finances with the Treasury Board Secretariat are aligning with Canadian Public Sector Accounting Standards, we accept their accounting.
- When there is clear direction in the Public Sector Accounting Standards, we require organizations to follow that direction.
- When there is not a clear direction, as is sometimes the case, organizations like the IESO review the matter to determine the best way forward.
- This approach can include seeking independent expert advice, as well as looking to other jurisdictions to see how they approached similar accounting questions.
- At the end of the day, when we are satisfied that the organization is doing everything necessary to meet the Public Sector Accounting Standards, the Treasury Board Secretariat accepts the finances that are provided to us.
- The IESO is a government organization that is regulated by the Ontario Energy Board.
- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards and its own internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial audit.
- A review of IESO finances by its own internal audit committee and an external third-party auditor demonstrates that its accounting methods are acceptable.
- The IESO's board of directors also discussed these accounting changes and determined that the most accurate and appropriate approach was to follow this accounting method.

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- The Office of the Provincial Controller approved this approach because it is in line with the Public Sector Accounting Standards based on previous accounting decisions, the advice of IESO's external auditor and the IESO Audit Committee.

Reasons for Accepting the IESO Accounting

- To be clear, this change has no impact to the province's annual deficit, net debt, or accumulated deficit. It is simply a way the IESO has determined is more transparent financially.
- The IESO are counterparties to the agreements that are signed with generators providing power to the electricity grid and local distribution companies drawing power from the electricity grid.
- This accounting is also consistent with the accounting that was previously used by the Ontario Power Authority in regards to generator contracts that were signed by that organization.
- The Ontario Power Authority was merged with the IESO on January 1, 2015, through an amendment to the Electricity Act.
- What interests me as the Provincial Controller is what that merger meant for the accounting practices of the IESO, and how it reported its finances to the Treasury Board Secretariat.
- The merger between the IESO and the Ontario Power Authority brought together real-time operations of the electricity grid and long-term planning, procurement and conservation efforts.
- It also brought the accounting considerations for the Ontario Power Authority together with the IESO.
- To me, this seemed appropriate, as the method used in the 2016-17 Public Accounts by the IESO was used in past financial statements for the Ontario Power Authority, which was accepted by the Office of the Auditor General at that time.
- This presentation, as mentioned before, has also been accepted by the IESO's independent external auditor.

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- The external auditor issued an unqualified, or "clean," audit opinion on the approach.
- In the spirit of openness and transparency, the IESO highlighted the changes to its market accounts assets and liabilities in its 2016 annual report, which was published online in March of 2017.
- I hope that gives everyone a better understanding of our professional accounting practices.

Size of the IESO-Managed Market

- Before I wrap up, I'd like to reflect on the amount of money the IESO is handling in its role as market administrator.
- As you've heard, the IESO operates and settles approximately $17 billion through the electricity market annually.
- For that $17 billion to be accounted for in the most transparent way, with respect to the value of transactions that flow through Ontario's electricity market, having the assets and liabilities reflected in the financial reports makes sense.
- If these $17 billion in transactions were not included by the IESO, they would go unreported in the government's financial statements.
- So to reiterate the point I made earlier, because of the internal and external support for this method of accounting, and based on a review by the professional accounting staff in the Office of the Provincial Controller, we support this approach.
- It is my understanding that the IESO is cooperating fully with the Office of the Auditor General to provide information, including the 2017 IESO financial statements prepared by management, and for access to management for assistance in understanding such information.
- I also understand that the IESO has instructed its external audit partner to cooperate with the Auditor General's audit.

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Conclusion

- So in conclusion, I'll say again that the government supports enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of market accounts.
- When it comes to accounting for $17 billion in transactions passing through a not-for-profit government entity, it is our opinion that the most transparent way to account for it is by including the market assets and liabilities so they can be seen and scrutinized.
- Again, in recognizing these markets accounts on the IESO books, there is no impact to the province's annual deficit, net debt or accumulated deficit. It is really just bringing to the surface the assets and liabilities that currently exist with market participants.
- The government accepts the financial results presented from government accountable not-for-profits like the IESO, provided they follow the Public Sector Accounting Standards and government accounting policy.
- Based on input from the IESO's board of directors, its Audit Committee and its external auditor, accounting for market assets and liabilities does follow Public Sector Accounting Standards.
- The approach IESO is taking is appropriate because it is transparent and it follows the Public Sector Accounting Standards. It is in line with how the Ontario Power Authority, merged with the IESO in 2015, accounted for its market accounts before.
- When it comes to the Public Accounts, the Treasury Board Secretariat is dedicated to presenting them in the most fair, honest and accurate way. Based on these criteria, it makes accounting sense to accept the way that the IESO has chosen to present the market accounts it oversees.
- The work that the Office of the Provincial Controller does to ensure that the Public Accounts are accurate and stringent is not a responsibility that it takes lightly.

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- I'm happy to have had the opportunity to lay out the reasons why the Office of the Provincial Controller supports the IESO accounting decisions for the 2016-17 Public Accounts.

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5. Long-Form Member Question_Pension Asset Accounting_20180214.pdf

5. LONG-FORM MEMBER QUESTION

DEPUTY MINISTER HELEN ANGUS

&

CINDY VEINOT, PROVINCIAL CONTROLLER

PENSION ASSET ACCOUNTING

QUESTION

- My question is about pension plans and how Ontario accounts for them in its Public Accounts – specifically, for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan.
- We all know the importance of pensions for workers, and so questions around pensions tend to raise interest.
- The Ontario Teacher's Pension Plan and the Ontario Public Service Employees' Union Pension Plan are being included as assets in the Public Accounts.
- Why is that, and why are we discussing these pension plans in particular?
- And if you could maybe speak about what evidence and processes were used to support the decision made by the government, I would welcome that as well.

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ANSWER

Deputy Minister Angus Introduction

- Thank you for the question. I'll turn it over in just a moment to our Provincial Controller Cindy Veinot, who can provide more details.
- But let me first say that the government continues to move forward and present the province's finances fairly and accurately in accordance with Canadian Public Sector Accounting Standards.
- To provide a bit of context to Cindy's answer, let me provide a quick overview of the issue of pension asset accounting in the Public Accounts.
- Back when the government released the 2015-16 Public Accounts, there was a disagreement between the Office of the Auditor General and the province's professional accounting staff on this issue. The conversation centred on the appropriate application of the Public Sector Accounting Standards in the reflection of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan in the Public Accounts.
- These pension plans are jointly-sponsored – meaning there is shared management and risk by both the government as the employer, and the bargaining agent for the members of the respective plans.
- In these cases, the bargaining agent is the Ontario Teachers' Federation for one plan, and the Ontario Public Service Employees' Union in the other.
- The Auditor General's position was that a full valuation allowance on the government's share of the plan on the province's two jointly-sponsored pension plans must be provided.
- A valuation means they were effectively written down to zero.
- That interpretation was a break from the accounting practices that the government has been using in Public Accounts since 2001, and so the government was not prepared to make that change without first considering it fully and seeking external expertise on the matter.

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- To allow for the release of the release of the Public Accounts, a time-limited regulation on the accounting treatment for those pension plans was passed in September 2016.
- This regulation allowed officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts, while we reviewed the question of how to account for these pension plans.
- The government then sought wide-ranging advice on how to move forward, including convening an independent Pension Asset Expert Advisory Panel, getting advice from external consultants, and conducting further research and analysis internally.
- This is a key part of our role as public servants – to conduct our due diligence and provide our best advice based on our professional judgment.
- Based on this research, during the 2016-17 fiscal year, it was confirmed by the government that the Public Sector Accounting Standards do not require a valuation allowance for either of the pension plans the Auditor General had identified.
- This determination was based on the panel report and the opinions from our external consultants, as well as our own review of the accounting standards.
- The decision to not take a valuation allowance was consistent with the accounting treatment that Ontario has used consistently since 2001. The 2015-16 Public Accounts were adjusted to reflect that decision in order to ensure year-over-year comparisons of Public Accounts were possible.
- So I think that provides some high-level context, and now I'll pass it over to Provincial Controller Veinot who can go into more detail.

Cindy Veinot, Provincial Controller

- Thank you, Deputy Angus, for that overview. You hit the main points, so I'll get into some of the details.

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- The government has chosen to continue to recognize pension assets from the two pension plans under discussion based on advice we received from external experts and from our own research and analysis on the Public Sector Accounting Standards.
- The Treasury Board Secretariat uses external expertise to supplement our own resources on complex accounting and reporting matters like this one. External advisors are engaged to provide advice and guidance to supplement our internal analysis.
- One example of this is the establishment of the Pension Asset Expert Advisory Panel during the 2015-16 fiscal year.
- This Panel was made up of four members, who were tasked with providing independent advice and recommendations to the government on the application of Public Sector Accounting Standards to Ontario's net pension assets.
- The four members of the Panel included accounting and legal experts, as well as pension experts that specialize in jointly-sponsored pension plans, actuarial modelling for pension plans, and Public Sector Accounting Standards.
- The panel also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsors.
- When the government announced it would be establishing the panel, it laid out the mandate very clearly, which included considering four things:
    - First, whether the government as a joint sponsor could be considered to have control of the plan, which is a necessary condition to recognizing pension plans as assets;
    - Second, the requirement regarding control with respect to recognizing a pension asset for other pension plans;
    - Third, the appropriate valuation techniques to measure a pension asset that take into considering future decision-making authority by plan sponsors; and.

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  - Fourth, to provide recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in its review of the retirement and post-employment benefits standards.

- The government asked that this advice be provided by the end of 2016 so that it could be shared with the Office of the Auditor General and with the public.
- The President of the Treasury Board received this report and shared it with the Office of the Auditor General, as well as making the report public in early 2017.
- The panel determined that the province's share of the net pension assets of both pension plans should be recognized in Ontario's financial statements, including Public Accounts.
- The government accepted the independent panel's recommendations and thus indicated its plans to account for these pension plans as government assets in the 2016-17 Public Accounts.
- With the expiration of the time-limited regulation, we also adjusted the 2015-16 Public Accounts to follow this recommendation.

Findings of the Panel

- Let me dig in to the findings of the panel just a little bit here, in the interest of clarifying the government's decision to list these pension plans as assets.
- The panel needed to determine whether the government could be considered to have control of the plan as a joint sponsor, a determination they made based on the governance and the terms of the plans, and how best to follow Public Sector Accounting Standards.
- Based on the research that the panel conducted, it concluded that an asset existed for the Ontario Teacher's Pension Plan and the OPSEU Pension Plan because the accounting surplus in the plans have a future economic benefit both to the government and the employee sponsors.

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- This future economic benefit can be realized by reducing the contributions the government makes to the plans, freeing cash for other purposes that would otherwise be required to make contributions.
- The panel also concluded that the government controls access to that accounting surplus because it shares control of the surplus with the employee sponsors. In the case of the OPSEU Pension Plan with OPSEU, and in the case of the Ontario Teacher's Pension Plan with the Ontario Teacher's Federation.

Ontario Teacher's Pension Plan

- In the case of the Ontario Teacher's Pension Plan, sponsors must agree with how the surplus funds will be used.
- However, if they do not agree, there is a process included in the pension plan itself that helps both sponsors reach a decision.
- The only condition in the Ontario Teacher's Pension Plan for accessing that extra money is that it must be shared equitably between the sponsors.
- Historically, this has meant a 50/50 split of the surplus over time.

OPSEU Pension Plan

- In the OPSEU Pension Plan, funding surpluses are allocated 50/50, and each sponsor is allowed to use the allocation they receive either to improve benefits for members of the pension plan or to reduce contributions as each sponsor determines appropriate.
- These agreements indicate that the government can reasonably determine that it would be able to reduce the contributions to the pension plans in order to free up cash for other purposes.

Reducing Contributions to Pension Plans versus Removing Assets from Plans

- Another important point to make is that there are different rules for directly taking assets out of the plans compared to reducing contributions to the plan.

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- Directly taking assets out of the plan requires permission from members of the plan or approval of the joint sponsor, as well as outside approval from the Financial Services Commission of Ontario.
- To reduce pension contributions, however, only requires that the plan sponsors agree to reduce contributions, and does not require any approvals from external parties.
- It is important to note that the government is not seeking to remove assets directly from the pension plans.
- Because of the existing surplus, some of the funds that would be contributed to the plans could reasonably be used in other ways without affecting the status of the pension plans.
- This question is whether the government could expect to be able to reduce contributions to these plans, thus freeing up that funding for other purposes that the question of accounting for them as assets rests.

Main Findings of the Panel Regarding Control

- The Panel arrived at two main findings, based on what I've just outlined. The findings support accounting for these pension plans as assets in the province's Public Accounts:

    1) First, there is no requirement under Public Sector Accounting Standards that any formal agreement must exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset. This is because the existing agreements in place between the parties support the recognition of an expected benefit.

    2) Second, unilateral control is not required to allow the government to recognize the pension plan surplus as an asset. Joint control, with each party having the ability to deny the actions of the other sponsor,

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only provides evidence of shared control, not a lack of control. Thus, joint control supports the recognition of an asset.

- Based on the recognition of these plans as assets, showing the pension plans as assets in the Public Accounts is a faithful representation of the province's financial position.
- It would therefore be misleading not to recognize the province's share of the Ontario Teacher's Pension Plan and the OPSEU Pension Plan as assets in the Public Accounts.

Independent External Analysis

- While the independent panel supported the government's position on these pension plans, the government also sought out further advice.
- The government sought opinions from two leaders in accounting practice – Deloitte LLP and EY.
- Deloitte provided an opinion on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan.
- The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Public Sector Accounting Standards, even though the province did not have a unilateral right to reduce contributions.
- The opinion provided from Deloitte did not address the value at which the asset should be recorded.
- A further consideration that needed to be addressed is at what value the pension asset is reported, and whether that value overstates the future benefit that can be expected from lower contributions.
- If the province's share of the plan assets exceed what can be expected as the future benefit, then the asset must have a valuation allowance applied to it to bring it to an appropriate level.
- An analysis was completed by EY as to whether any valuation allowance is required to be recorded for both pension plans.

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- As of March 31, 2017, EY confirmed that no valuation allowance was required for either plan.

Decision to Take Advice

- After significant deliberation, including consideration of the expert panel, Deloitte's opinion, and EY's opinion, Ontario confirmed that the accounting for these plans prior to the 2015-16 fiscal year was appropriate.
- The government's position on recording these pension plans as assets is in line with Public Sector Accounting Standards for pension asset accounting.
- Based on extensive consideration, the government determined that the appropriate accounting for the 2016-17 financial statements should include these pension assets.
- Consistency in accounting is important because it allows people to make year-over-year comparisons. When changes are made, the government is transparent and open about the changes.
- In the case of pension assets, we have been open and transparent about the way the government arrived at the decision to continue listing the pension plans as assets in the Public Accounts.
- In addition to following the expert advice going forward, in order to make sure that comparisons are able to be made year-over-year in the Public Accounts, the 2015-16 financial statements were restated to reflect the pension surpluses as assets.

Conclusion

- In closing, I want to reiterate that while the province respectfully disagrees with the Office of the Auditor General's interpretations of the Public Sector Accounting Standards on this issue, we are open to continuing to discuss it in the hopes of finding a resolution.

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- Public Sector Accounting Standards do not say that the government must have unilateral control over the jointly-sponsored pension plans to record them as an asset.
- Because there are ways to access the value of these pension plans, including reducing employer and employee contributions, and because the surplus was built on previous actions taken by the government and employees, as well as investment income, it should be recorded as an asset.
- In following the advice of the independent panel and the organizations engaged to provide additional outside analysis, there is the added benefit of the government following the accounting treatment that Ontario has consistently used since 2001 which makes year-over-year comparisons possible.
- We stand by our extensive research and analysis. We take our duty to provide the most fair and accurate Public Accounts very seriously, and in accounting for pension assets we are always guided by that duty.

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Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question

- How is Ontario planning to keep a balanced budget?

Answer

- My ministry has been working to execute the government's goal of eliminating the deficit and balancing the budget.
- This plan was first introduced in the *2010 Budget*, arising from the impact of the global recession.
- The plan to balance the budget was realistic and responsible, and it focused on four main areas:
    - Preserving the integrity of provincial revenues
    - Managing growth in expenses without detracting from the quality of services and programs
    - Ensuring fiscal arrangements treated Ontarians fairly within the federation, and
    - Investing in infrastructure and short-term stimulus to promote economic growth and job creation.

- These actions reduced the deficit to just under $1 billion last year from more than $19 billion at the height of the recession.
- Program expenses as a share of GDP returned to pre-recession levels, and Ontario remains the province with the lowest program spending per capita among all provinces in Canada.

- In addition, Ontario's economy continues to grow in an uncertain and challenging global environment. Since 2014, Ontario's economy has grown more than Canada's and that of all other G7 countries.
- The government's continued focus on capital investment is fuelling economic growth, which is also contributing to ensuring that Ontario's GDP grows more quickly than its provincial debt.
- Ontario's net debt-to-GDP ratio and accumulated deficit-to-GDP ratio both peaked in 2014–15 and have trended downwards since then.
- In fact, Ontario's accumulated deficit-to-GDP ratio is at its pre-recession levels – meaning that, while Ontario has accumulated more debt resulting from deficit financing, the amount of debt it has taken on has not grown faster than the economy.
- In my remarks today, I will focus on highlighting key figures from the 2016–17 Public Accounts.

2016-2017 Fiscal Performance

- Ontario's actual performance in 2016–17 outperformed the *2016 Budget* forecast.
- The 2016–17 Public Accounts show that Ontario's deficit was $991 million — $3.3 billion lower than projected in the *2016 Budget*.
- It marked the eighth year in a row that the Province beat its deficit target.
- This was a result of higher revenues and lower expenses than *2016 Budget* projections.

Revenues

- First, revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.3 billion higher than the *2016 Budget* projection.

- The government's four major categories of revenue are: taxation revenue, Government of Canada transfers, income from government business enterprises and other non-tax revenues.
- Higher revenues for 2016–17 were mainly due to higher-than-expected corporation tax revenues and income from government business enterprises, offset by lower transfers from the Government of Canada and other non-tax revenue.

- The largest revenue source for the government is taxation revenue, which was $94.3 billion in 2016–17, an increase of $2.5 billion from the *2016 Budget* projection.
- This increase was largely due to higher corporation tax revenues.
- The second category is Government of Canada transfers, which were $24.5 billion in 2016–17, a decrease of $0.6 billion from the *2016 Budget* mainly due to lower-than-expected funding for infrastructure and other federal payments.
- The third category is income from government business enterprises, which includes the net income from enterprises such as Hydro One Ltd., Ontario Power Generation, the Liquor Control Board of Ontario and the Ontario Lottery and Gaming Corporation.
- In 2016–17 income from government business enterprises was $5.6 billion, an increase of $540 million from the *2016 Budget* projection due to higher-than-projected net income from the OLG and the LCBO.
- Finally, other non-tax revenues were $16.3 billion in 2016–17, a decrease of $222 million from the *2016 Budget* projection.
- Factors driving this decrease include carbon allowance proceeds that will be recognized in 2017–18, instead of 2016–17 as originally projected.
- This decrease is partly offset by higher-than-expected revenues from broader public sector entities such as hospitals and colleges.

- You'll note that moving to line-by-line accounting for these entities from one-line consolidation means that these third-party revenues are now captured in the Province's revenue sources.

- I think it is important for this committee to appreciate a few interesting facts about 2016–17 revenues.
- Over the past five years, between 2012–13 and 2016–17, taxation revenue grew at an annual average rate of 4.4 per cent, higher than the average annual nominal GDP growth of 3.9 per cent over the same period.
- Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors.
- Growth in some revenue sources, such as corporation tax and mining tax, can diverge significantly from economic growth.
- This is due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward.
- The impact of housing completions and re-sales on HST and land transfer tax revenue is proportionately greater than their contribution to GDP.
- Volume-based gasoline and fuel taxes are more closely aligned to real GDP as these revenue sources are less influenced by price changes.
- This is important for understanding the government's approach to forecasting as well as the inherent uncertainty that will accompany budget-making and forecasting.

- An important part of the Province's revenue performance over the past five years is the unwavering commitment to revenue integrity and combatting the underground economy.
- Ongoing enhanced compliance-focused measures have generated over $1.4 billion in revenue for Ontario since 2013–14.

- The government has also launched a comprehensive social media campaign that informs the public about how participation in the underground economy puts the people of Ontario at risk.
- We have also taken strides to develop information-sharing agreements to support analytics that will lead to better evidence-based decisions and target compliance efforts that address high-risk activities.

- Finally, a few words about federal transfers.
- While Government of Canada revenues make up about 17 per cent of total Ontario revenue, these revenues are not growing as fast as the rest of provincial revenues.
- And we anticipate that they will not be growing as fast as provincial expenditures that are supported by federal revenues.
- Over the past five years, Government of Canada transfers to Ontario have only grown by 2.8 per cent.
- The Province is on the verge of falling out of the Equalization program – a transfer that, at its peak, generated $3.3 billion for Ontario.
- And Canada Health Transfer's growth is now limited to the growth in national nominal GDP – which will only provide for three per cent growth in 2017-18.
- This makes it clear that the Province is becoming less reliant on federal transfers.
- This will become an important part of fiscal planning moving forward.

Expenses

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the *2016 Budget* projection.
- Program spending expenses accounted for $130 billion, up $600 million from the *2016 Budget* forecast as spending in health, children's and social services, and other programs was higher than planned.

- These areas of spending represent the largest and most demand-driven component of program spending.
- They are also the areas where the government has invested the most over the past decade.
- Interest on debt accounted for $11.7 billion, down $0.7 billion from the *2016 Budget* forecast as a result of lower-than-projected interest rates and cost-effective borrowing and debt management.

- In summary, higher-than-projected revenues and lower-than-projected expenses resulted in a $991-million deficit last year – $3.3 billion lower than the *2016 Budget* projection.
- Program spending was held to 1.5 per cent growth between 2015–16 and 2016–17, reflecting the government's commitment to manage spending as part of the plan to balance the budget.
- Program spending is projected to average three per cent a year between 2013–14 and 2017–18, which is consistent with the broad macro indicator of inflation and population growth.
- As indicated earlier, program spending as a share of GDP is at the same level as it was prior to the global recession.
- Together, these macro indicators reflect the government's approach to delivering on a balanced budget in 2017–18.

2017–18 and the Economic Outlook

- While the focus of this discussion has been on the 2016–17 Public Accounts, I also want to provide a brief update on the latest information regarding the Province's finances.
- The government recently released its third-quarter update on 2017–18, which continues to project a balanced budget for this year.

- Revenue, program expense and interest on debt remain unchanged from what was reported in the 2017 Ontario Economic Outlook and Fiscal Review, with all funding required for new investments accommodated from within the fiscal plan.
- Private-sector forecasts, on average, estimate 2.9 per cent growth in Ontario real GDP in 2017, up from 2.4 per cent in the *2017 Budget*.

- There are a number of risks that could affect Ontario's economic outlook, which we are continuing to monitor.
- Rising interest rates and tighter mortgage borrowing requirements could cause a greater-than-expected slowdown in household spending and housing market activity.
- Potential changes to the NAFTA could disrupt trade patterns and affect Ontario exporters.
- In addition, recent tax reforms in the U.S. may challenge Ontario's competitiveness and weaken business investment.
- More information on the Province's fiscal performance this year, and the plan and outlook for the years ahead, will be provided in the upcoming Budget.

Conclusion

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1 billion, an improvement of $3.3 billion from the $4.3 billion projection in the *2016 Budget*.
- Total revenue for 2016–17 came in at $140.7 billion, $2.3 billion higher than the *2016 Budget*.
- This was largely due to higher-than-expected tax revenues and net income from government business enterprises.
- Total spending for 2016–17 came in at $141.7 billion, $100 million lower than the *2016 Budget*.

- Program spending was $130 billion, up $0.6 billion from the plan of $129.4 billion.
- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.

- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario and we will continue to build on our track record of responsible fiscal management.
- Thank you.

SCOPA_MOF_long form QA_Credit Rating_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question

- What are the plans to keep Ontario's credit rating in good standing?

Answer

Introduction

- All four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – have a stable outlook on Ontario's healthy long-term credit ratings.
- This reflects rating agencies' confidence in the government's fiscal plan.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's just updated its credit opinion earlier this month.
- The stable outlook for Ontario reflects Moody's forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable over the next two years.
- Moody's outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management with a focus on market access and debt affordability; an institutional framework providing significant fiscal policy flexibility; and revenue supported by a large diversified economy with a broad and productive tax base.
- Moody's highlighted a number of credit challenges: high debt burden and debt will continue to increase despite balanced budget projections; elevated interest

expense with higher rates is anticipated; and rising expenditures are a risk to balanced fiscal targets.

- A significant reduction in the province's debt burden, accompanied by lower interest expense, could put upward pressure on the rating.
- A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

- Next, DBRS.
- DBRS notes that the ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden.
- Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio.
- DBRS expects the ratings to remain stable.
- Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.
- An upgrade would require a significant reduction in the provincial debt burden to a level commensurate with the AA-range rating.
- A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies.

- Standard & Poor's is next.
- Standard & Poor's "expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- The stable outlook reflects Standard & Poor's expectations that, within the next two years, the Province will sustain a more balanced budgetary performance,

including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- A sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, would make Ontario's finances more comparable with peers in the 'AA' category. This could result in a positive outlook or upgrade.
- Conversely, an unexpected economic shock coupled with the introduction of fiscal policies that endanger Ontario's fiscal sustainability and result in after-capital deficits could put downward pressure on the ratings within the next two years.

- Finally there is Fitch.
- Fitch's report stated that "the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives."
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy, generally sound financial management, predictable and balanced institutional framework, and low contingent liabilities.
- Ontario's credit profile is stable and assumes that the Province contains its focus on tabling balanced budgets and gradually lowering the burden of debt.
- The resumption of significant borrowing to support operating deficits would result in negative pressure on the rating.

- Ontario can maintain its credit rating in good standing by ensuring its debt burden and debt service costs remain manageable.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt, and
    - Increasing its liquid reserves.

- I will now go into more detail on each of these points.

Decreasing the Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenue needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Fall Economic Statement forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

Decreasing the Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.

- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower, at a cost of 8.2 cents in interest for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower throughout the outlook period to 2019–20.

Extending the Term of its Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from an increase in interest rates, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.

- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly to 13.9 years in 2016–17 from 8.6 years in 2008–09.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of total debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.

- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating is one of the factors that can affect the cost of future government borrowing.
- A rating downgrade could shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves
- These strategies are aimed to ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.
- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Debt_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term of its debt
    - Increasing its liquid reserves.
- I would like to provide an update on the progress of reducing the provincial debt burden.

Net Debt-to-GDP Ratio

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise revenues needed to meet them.

- It is an indicator of the relative burden of government debt on the economy.
- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, making it more difficult to repay.

- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has declined ever since as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- In the *2017 Budget*, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24.
- The government also continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The 2017 Ontario Economic Outlook and Fiscal Review forecast the net debt-to-GDP ratio to be 37.3 per cent in 2017–18, or 0.2 per cent lower than was forecast in the *2017 Budget*.

- The province will continue to grow because of Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- This growth will help the government manage the net debt-to-GDP ratio.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.

- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.

- The *2010 Budget* forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the *2017 Budget*, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt

- Finally, record-low interest rates have enabled the government to control its annual interest expense.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a rising trajectory.
- To protect the province from these increases, the government has extended the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.
- Going back to the beginning of fiscal 2010–11, Ontario has issued $70.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 13.7 years as of January 31, 2018.
- The average term of the debt outstanding is 11 years.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Increasing its Liquid Reserves

- The government has increased the level of its liquid, or cash, reserves as Ontario came through the financial crisis of 2008–09.
- These reserves are currently over $30 billion as compared to an average of $7.3 billion in 2007, preceding the financial crisis.
- The Province is targeting a level in excess of $25 billion at the end of this fiscal year.
- This build-up in cash reserves will allow the Province to withstand unexpected economic events including any market disruptions.
- It also ensures that the Province will be well prepared to meet large single-day maturities in both 2018–19 and 2019–20.
- Investors and rating agencies also look favourably upon liquid reserves that are consistently high as evidence that Ontario will be able to meet its financial commitments, and include this as a factor in their assessment of the Province's credit-worthiness.

Conclusion

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on four key areas:
    - Decreasing the net debt-to-GDP ratio
    - Decreasing the interest on debt-to-revenue ratio
    - Extending the term on its debt when interest rates are low
    - Increasing liquid reserves.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

SCOPA_MOF_long form QA_Fair Hydro_v15 to DMO briefing.pdf

LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.
- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change became effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.

- Ontario is also helping customers through local distribution companies.
- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended the Government of Ontario eliminate the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017–18, and will provide a full update on its fiscal plan in the spring budget.

SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

A.pdf

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

AG 2017_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Chapter 2.pdf (721675 Bytes).

AG 2017_News Release_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

AG 2017_Summary_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

AG 2017 Report on Fair Hydro Plan.stub.pdf

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

SCOPA Ch 2 Q_A .pdf

From:	Hume, Steen (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Cc:	Cox, Hilary (ENERGY)
Subject:	SCOPA Ch 2 Q/A
Date:	February 22, 2018 9:16:57 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 20180208 - Approved.docx CH 3 Additional Questions.docx

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Good morning. Attached is the current package of difficult QAs and some additional ones that I'd like to discuss at 9:30.

Thanks, Steen

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_9.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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CH 3 Additional Questions_1.pdf

Additional Questions

Q. When do we start paying the clean energy adjustment?

Q. Does OPG make money running the Fair Hydro Trust?

Q. You say the $4 billion FAO number is wrong? So how much will it cost?

Q. Why are refinancing the Global Adjustment through rate base?

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

SCOPA Ch 2_QA and friendlies.pdf

From:	Nucciarone, Michael (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	SCOPA Ch 2_QA and friendlies
Date:	February 5, 2018 12:47:22 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5.docx

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Hi Deputy,

Attached is a tracked version of the SCOPA chapter 2 friendly that we discussed.

I can incorporate your edits into the larger Q&A document where the OFHP is mentioned.

Thanks,
Michael

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _22.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of

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electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

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The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
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- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

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OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

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Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered*

> *by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are

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regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

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1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

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As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

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management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

<u>Response</u>

<u>Ontario Power Generation's Qualifications</u>

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

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OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM...(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -ADM -v1
Date:	February 2, 2018 5:48:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -ADM -v1.docx

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Hi Steen –
Revised chapter 2 friendly with OPG's text on their role/expertise embedded (highlighted in yellow). Somewhat duplicative of what you had already drafted, but OPG approved, so we should probably just cut what you had previously written.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _23.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   ~~Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.~~

   ~~Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

   ~~Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Prices have increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

~~The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.~~

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

To address the impact of our electricity system investments on ~~relieve the current burden on~~ consumers, the following ~~two streams of~~ initiatives ~~where~~are being ~~are being~~ undertaken.

First, ~~In the early years,~~ a portion of Global Adjustment (GA) costs ~~will be~~is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

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beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

Second, ~~Thethe~~ province has introduced rate relief programs and expanded existing ones.

In addition, ~~A~~a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced~~ing~~ the existing OESP, and is providing on-reserve First Nations with a delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

~~In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.~~

~~Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.~~

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

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OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

The OHFP identified OPG as the Financial Services Manager (FSM) assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with GA refinancing.

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

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OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the Used Fuel Segregated Fund, and $15 billion in pension funds.

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OPG has developed solid investor relationships and has a large investor base in the structured finance space for financing Ontario's Fair Hydro Plan (OFHP) initiative.

The diversity of skills possessed by OPG position it to ensure an effective funding arrangement is put in place that clearly defines the electricity ratepayer as the person receiving the initial benefit of the legislation.

As OPG works through the financing program for Ontario's Fair Hydro Plan, it is focused on ensuring that financing is optimized to minimize costs to ratepayers.

In particular, attention has been given to achieving a strong credit rating for the Trust, again, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Finally, OPG's Treasury function is well positioned given its experience in developing structured financing programs and in managing multiple existing debt platforms.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

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Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
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> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

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Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
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When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

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We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

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Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

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KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

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For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

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- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM...(2).pdf

From: Cox, Hilary (ENERGY)
To: Cayley, Daniel (ENERGY); Christie, Tim (ENERGY)
Subject: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5
Date: February 6, 2018 10:03:57 AM
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2).docx

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I've included the 2.5 billion that Steen and the DM have requested. Please fill in the blank highlighted in yellow (for the OREC number) and return for ADM approval.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _24.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

These new measures will cost the government up to $2.5 billion over the next three year. That, plus the 8% rebate equates to $XX out of the rate base.

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This will reduce bills for everyone, and ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the

beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing.

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Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

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As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

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And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

DRAFT

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

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Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM...(3).pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Cayley, Daniel (ENERGY)
Subject:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc
Date:	February 6, 2018 12:38:56 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx

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Hilary, here is the revised response.

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _25.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, ~~the following initiatives are being undertaken.~~Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
     - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

Rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

These new measures ~~will~~were forecast[3] to cost the government up to $2.5 billion over the ~~next~~first three fiscal years of the OFHP. These programs~~That~~, plus the 8% rebate, ~~equates to $XX out of the rate base.~~

~~This will~~are reducinge bills for ~~everyone~~Ontarians, and funding them through the tax base will ensure these programs continue to serve those in need.

~~First~~As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our

[3] The $2.5B forecast was developed in preparation for the ~~the lead up to the~~ release of Ontario's Fair Hydro Plan. Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast ~~behind this forecast have changed.~~

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investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

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Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

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In terms of administration, OPG is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

   The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

   > *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS*

> *1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

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Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

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When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

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KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

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> statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

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OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

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- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM...(4).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc
Date:	February 6, 2018 3:41:00 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 5 (2)-dc.docx

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Hi –
Please review Steen's yellow highlighted text in the attached and let me know if you have any issues. Before EOD please.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _26.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
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- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).
- Any rate increases over the next four years will be held to the rate of inflation.

Electricity rate relief programs such as the OESP and RRRP have social value and benefit vulnerable people across Ontario and so, the province has shifted these programs from being paid for through electricity bills to being paid for through government funding.

Shifting these program costs was forecast[3] to cost the government up to $2.5 billion over the first three fiscal years of OFHP. These programs, plus the 8% rebate which is also funded through the tax-base, are reducing electricity bills for provincial rate payers. In addition, the ongoing funding of these measures through the tax-base will provide benefits to rate payers into the future.

Refinancing the Global Adjustment

As well, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

[3] The $2.5 billion forecast was developed in preparation for the release of Ontario's Fair Hydro Plan. Note: Some of the underlying assumptions as well as actual spending figures for the 2017-18 fiscal year would change this forecast.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of OFHP

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
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- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to OPG, it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with GA refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

OPG is uniquely positioned to be the FSM, it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

OPG has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

OPG currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

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Ontario Power Generation has a strong track record of producing high-quality financial reports on a timely basis. In addition, OPG will report on the activities of the

Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

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OFHP is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing GA refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

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In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;
4. MISO;
5. PJM; and
6. ERCOT.

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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

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To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

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- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

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3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

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In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

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As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM....pdf

From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Lightbody, Ava (ENERGY); Cayley, Daniel (ENERGY)
Subject:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - ADM v2
Date:	February 2, 2018 4:52:01 PM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits - ADM v2.docx

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Hilary, this is the version that Steen sent back with only grammatical/tense edits. We think the flow could be improved, but this seems to be what Steen is looking for?

SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _27.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built.

   Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

   Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. ~~Prices have~~

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[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~increased because our energy system is being transformed – more than $70 billion has been invested to modernize the electricity system.~~

The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

~~But we asked one generation – today's generation – to unfairly shoulder the burden of a large portion of those costs. We had to play catch-up and we asked today's ratepayers to cover nearly the whole tab.~~

~~The government heard from Ontarians across the province that the costs of these new investments have grown too quickly, which is why we have moved forward with a plan that would ensure costs are shared more evenly over the years ahead.~~

To address the impact on ~~relieve the current burden on~~ consumers, the following ~~two streams of~~ initiatives where ~~are being~~ undertaken.

First, ~~In the early years,~~ a portion of Global Adjustment (GA) costs will be refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

~~Under initial government forecasts, the immediate reduction in the GA was about $2.5 billion per year on average over the first 10 years, with annual interest costs not exceeding $1.4 billion.~~

Second, ~~. The~~the province has introduced rate relief programs and expanded existing ones.

In addition, ~~A~~a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program ~~will~~are now ~~be~~ funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced~~ing~~ the existing OESP, and is providing on-reserve First Nations with a delivery credit. ~~Combined, these new measures would cost the government up to $2.5 billion over the next three years.~~

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

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7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
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5. PJM; and
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I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;

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2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial

statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

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This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

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In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

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- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

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The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 201802....pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 2018022 -V 2
Date:	February 21, 2018 11:38:48 AM
Attachments:	SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 2018022 -V 2.docx

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Hi Tim and Daniel –
Please review the yellow highlighted portion of attached Chapter 2 friendly and fact-check. Looking for this back by 1 pm please.

HC

SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 2018_3.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- o Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with some of the highest distribution charges.

- Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program of the old Ontario Hydro and has existed in its current form since 2001. ~~It currently benefits approximately 350,000 customers. Part of the program helps fund the costs of Hydro One customers classified into the "R2" residential rate class (low density), who pay some of the highest delivery costs in~~

  - o About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

  - o Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

    - These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

    - This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

    - ~~o~~ In January this year, over 220,000 OESP credits were issued to households across the province.

  - o Establishing ~~a~~ the new ~~On-Reserve~~ First Nations Delivery ~~Rate~~Credit.

    - Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent ~~%~~ of the electricity delivery charge on their electricity bills.

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-Program cost, beneficiaries, eligibility ect.

- The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.

- Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

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- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- The government has aligned eligibility for Global Adjustment (GA) refinancing with the Ontario Rebate for Electricity Act, 2016 (ORECA), which provides for the 8 per cent rebate. This means that consumers who are eligible for the 8 per cent rebate are also eligible for Global Adjustment (GA) refinancing, including residential consumers, most small businesses, farms, condominiums, multi-unit residential complexes, long-term care homes and housing cooperatives.

  - All RPP consumers receive Global Adjustment (GA) refinancing through the Ontario Energy Board's (OEB) RPP rate setting process.

  - Consumers not participating in RPP but who are eligible for Global Adjustment (GA) refinancing include consumers that have opted out of RPP to sign contracts with electricity retailers or become wholesale consumers, and those who are eligible for ORECA but not RPP, such as long-term care homes. The OEB has determined a GA Modifier to be made to the GA charge on eligible non-RPP consumers' bills.

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First

Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

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Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

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2. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

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It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio,

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Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;

5. **CAISO**, in California;
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When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

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To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

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As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

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- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. **To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?**

   And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

   Response

   Ontario Power Generation's Qualifications

   Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

   OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

   In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

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These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.
- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

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There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.
- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.
- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 ....pdf

From:	Imbrogno, Serge (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL
Date:	February 28, 2018 9:42:10 AM
Attachments:	SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 2018027 -FINAL.DOCX

Hi. Can you share with staff for review. In the meantime, accept the changes, reformat if necessary and print me a copy. Thanks

SCOPA Ch 2_QA_Member_ENERGY IESO OPG - 201802_10.pdf

Ministry of Energy – Proposed Member Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   ~~*Policy Objectives of Ontario's Fair Hydro Plan*~~

   Thank you for the question.

   In responding to the question I'd like to give some background and the evolution of Ontario's electricity sector to provide some important context for the OFHP.

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   ~~Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history.~~ Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers though~~t~~ the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base. In addition, a policy decision was made to refinance the Global Adjustment over a longer amortization period that better reflect~~ed~~s the life of the assets.

   To better understand ~~of~~ the Ontario Fair Hydro Plan, it is important to unpack the key components of the plan in more detail. I like to group these components into three buckets: ~~The three key components that are included in the Ontario's Fair Hydro Plan are:~~

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

~~1.~~ The first bucket is t~~T~~he Ontario Rebate for Electricity Consumers (OREC) program~~: The (OREC) program, which commenced on January 1, 2017, provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount.~~

~~2.~~ The second bucket is ~~Helping vulnerable electricity consumers by~~ enhancing electricity support programs and shifting costs off the electricity bill from the ratebase to the tax base.

~~3.~~ The third bucket is r~~R~~efinancing the Global Adjustment (GA) over a longer term period ~~for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms~~of time to better align cost recovery with the useful life of generation assets.

Now, I'll go into more detail on each of the three buckets:

~~The Ontario Rebate for Electricity Consumers:~~

On January 1, 2017, the government introduced the Ontario Rebate for Electricity Consumers program which provides financial assistance to eligible consumers in respect of electricity costs. The rebate is equal to eight per cent (8%) of the base invoice amount which is equivalent to the provincial portion of the Harmonized Sales Tax (HST) on the bills of residential, farm, small business and other eligible customers. That's an 8% rebate provides ~~for Ontario families,~~ an average savings of approximately $130 annually or $11 each month.

~~This is part of Ontario's plan to help people with the costs of everyday living by reducing electricity costs. Th~~The~~e~~ rebate is available to all consumers eligible for the Regulated Price Plan (RPP) – this includes about five million residential consumers, small businesses and farms~~.~~

~~•~~ The OREC has an approved 2017-18 expenditure of $939M.

~~Electricity consumers eligible for the 8 per cent rebate are also eligible for GA refinancing, including residential consumers, farms, most small businesses, long-term care homes and condominiums. Eligible consumers who have signed contracts with electricity retailers are also eligible.~~

The second bucks of initiatives consists of ~~E~~enhancing electricity s~~S~~ocial p~~P~~rograms and shifting costs to the taxbase.~~:~~

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Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible electricity consumers will receive additional support through the following~~funding through~~ ~~assistance~~ programs ~~including~~:

- ~~Establishing a~~ A new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

  - ~~Rural or Remote Rate Protection (RRRP) mitigates some of the high costs of electricity distribution in rural or remote areas of the province. It is a legacy program~~ of the old Ontario Hydro and has existed in its current form since 2001.

- About 800,000 customers now benefit from the enhanced rate protection. Residential customers from the following LDCs benefit from the broadened rate protection: Hydro One low density (R2) and medium density (R1) customers,, Northern Ontario Wires, Lakeland Power (Parry Sound),), Chapleau Public Utilities Corporation, Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- These changes came into effect on May 1, 2017 and included increasing on-bill credits by 50 per cent and expanding eligibility so more Ontarians are eligible.

- This program is available to households that receive electricity bills and meet the household size and income eligibility criteria. Monthly, on-bill credits of $35-75 are available to eligible applicants, and for those with additional energy needs, the credit ranges from $52-113.

- In January this year, over 220,000 OESP credits were issued to households across the province.

- ~~Establishing the new First Nations Delivery Credit.~~

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- Since July 1, 2017, the First Nations Delivery Credit has provided on-reserve First Nations households who are customers of licensed electricity utilities a credit equal to 100 per cent of the electricity delivery charge on their electricity bills.

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- The First Nations Delivery Credit helps address some of the unique challenges that on-reserve First Nations customers face and recognizes First Nations' contribution to the provincial electricity system.

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Data reported by the Independent Electricity System Operator indicates that over 20,000 customers are receiving the credit, which was the target pre-launch and reflects a successful rollout.

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- All of these new and enhanced rate mitigation programs in the two buckets are funded by the taxbase at total cost of about $1.5 billion annually.

~~*Refinancing the Global Adjustment*~~
And now I'd like to discuss the third bucket – refinancing the global adjustment.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of the re-financing will be recovered from electricity consumers and not taxpayers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that ~~we've~~ have been made to build a clean and reliable electricity system. This more fairly shares the cost of ~~our~~ these investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the

electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. ~~We believe it is appropriate for ratepayers to pay for the financing of electricity assets.~~

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

~~Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.~~

~~Now, I would like to go into a bit more detail on the development of the Ontario Fair Hydro Plan and the role of Ontario Power Generation:~~

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options, including the appropriate life of the assets and amortization period. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

~~3.~~1. To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?

And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

Response

Independent Electricity System Operator's Approach to Accounting

The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

~~4.~~2. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

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As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Chapter 2 QA and friendlies.pdf

From:	Nucciarone, Michael (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	SCOPA Chapter 2 QA and friendlies
Date:	February 8, 2018 4:10:24 PM
Attachments:	SCOPA QAs_MOE_20180129 - EPE-ADM FEB 8.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 8.docx

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Hi Deputy,
Attached are both the friendlies and long-form QA package for the SCOPA Chapter 2 walkthrough briefing with TBS and the SoC tomorrow.
ESP has adjusted the wording regarding the OFHP and highlighted the edit in both the long-form and friendly QA docs.
In addition, the Q&A regarding OPGs first debt offering has also been added to the long-form QA document.
Okay to share in advance of the meeting?
Thanks,
Michael

SCOPA QAs_MOE_20180129 - EPE-ADM FEB 8_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;

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- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the

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search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _28.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA Chapter 2 materials - response table and ....pdf

From:	Cox, Hilary (ENERGY)
To:	Hume, Steen (ENERGY)
Subject:	SCOPA Chapter 2 materials - response table and QA package
Date:	January 30, 2018 12:16:00 PM
Attachments:	Response Table_Example_20180122 (3) ieso ESP.docx SCOPA QAs_MOE_20180129 - Policy, IESO, Legal.docx

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Hi Steen –

Attached are the remaining draft materials for SCOPA Chapter 2:

- TBS response table (for SoC briefing) – with IESO input on IESO accounting and ESPD input on OFHP accounting
- QA package (as originally blocked out/completed by you) with input from IESO, CRED, SNAP, LSB (on records search) as well as overall LSB edits.

HC

Response Table_Example_20180122 (3) ieso ESP_2.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The IESO's change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

Commented [KL1]: May be able to mention 2017 audit results at this point.

Commented [HS(2]: Can IESO fact check this section.

Make any edits and/or additional content as necessary.

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Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making~~, and that the accounting structure is still being finalized.~~ Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan, bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. The province will continue to prepare its consolidated financial statements in accordance

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		with ~~Public Sector Accounting Standards (~~PSAS~~)~~. ~~The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.~~ PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, the IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations. ~~The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.~~
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting

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	to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought the IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

~~Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.~~

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

Commented [RJ(2]: NTD-LSB: This should be verified by SNAP with IESO. It seems correct but can't confirm.

Commented [KL3]: The OPA previously reported a subset of market accounts, but were not subject to an AG audit.

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This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect the IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, the IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees,

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which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report. *[ntd-jpr: Consider adding something a bit more substantive, such as "….and respects the Auditor General's independence.]*
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- ~~The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.~~

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For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.

Commented [KL5]: It may be more appropriate for the IESO to respond.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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~~We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.~~

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~~The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.~~

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change ~~was~~ made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.~~.~~

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

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In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator." This reference is ~~misleading~~ somewhat incomplete as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

Commented [KL6]: This deviates slightly from the IESO's position:
The IESO is rate-regulated by the OEB in accordance with the Electricity Act, 1998 (the Electricity Act") and the Ontario Energy Board ("OEB") Act, 1998 (the "OEB Act"). The IESO activities subject to rate regulation by the OEB include the following:
(a) IESO's expenditure, revenue requirements and fees;
(b) Smart metering activities; and
(c) A subset of market accounts.

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(7]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

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- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.
- The Government's? professional staff have~~s~~~~has~~ appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

Commented [RJ(8]: I gather that this refers to the OFHP broadly, whereby elements of the bill such as OESP and a portion of RRRP were removed from the rate-base and transferred to the tax-base. Otherwise, this wouldn't make sense for explaining the refinancing of GA over several generations of ratepayers (the main part of the OFHP).

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system since 2003, but these investments have necessarily led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS)

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a cost-recovery mechanism that recovers certain electricity system costs (or regulatory charges),~~,~~ such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) in accordance with the *Electricity Act, 1998* and its Regulations, and is based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation, load management and energy efficiency programs ~~in~~ across the province.

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GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to ~~plan~~ design an ~~structure~~approach~~a structure~~, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;

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- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised downward~~down~~ substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Commented [RJ(9]: I think it might be wise to explain why the original estimate was $8 billion off? What changed between March, 2017 and Jan-Feb, 2018? For example, below we have "*Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.*" And still later, "*The government estimates of total interest cost also decreased from $25 billion[1] to less than $19 billion[1].*"
"

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised downward~~down~~ substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised downward~~down~~ substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that f~~F~~uture generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation which paved the way for more renewable generation.~~.~~

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

~~No.~~ GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

[15] Ministry of Energy
[16] Ministry of Energy
[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(10]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately ~~70~~ 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

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~~Q.~~ Why is there a need for an Affordability Fund?

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From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

~~Q.~~ Who is eligible to benefit through the Affordability Fund and what measures will the average household receive~~?~~

~~The~~ Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

~~Q.~~ How many households are expected to benefit from the Affordability Fund?

~~The~~ number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

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As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

Commented [CRED11]: Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

Commented [HS(12]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26th, 2017, t~~T~~he Ministry has provided all responsive records (more than ~~email provided more then~~ 7~~0~~3,000 emails) to the AG ~~and have now completed the required request with all responsive records~~. ~~As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.~~

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Q. How much money did the Ministry spend on lawyers?

~~The Ministry does not intend to spend more than $60,000 on this request.~~ Although the retainer agreement includes a cap of up to $500,000, the Ministry spent approximately $150,000 on the retainer~~,~~. ~~as of September 21, 2017, only $41,775.75 has actually been spent.~~

Commented [TA(13]: This number is not accurate anymore. Do we need the final number?

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy ~~has~~ selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry ~~has~~ completed its response to the AG on October 26th, 2017. ~~has been regularly providing AG batches of responsive documents~~.

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Commented [HA(14]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(15]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods ~~between redesigned and previous bills~~ will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry ~~has~~continues to engage~~d~~ with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of LTEP 2017, the Ministry committed to continue to work with the OEB, industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

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Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with the Ontario Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan for consumers.

The new regulatory amendments are being~~were~~ discussed with industry stakeholders as part of the bill redesign working group. ~~Feedback from the working group was considered in the development of the regulation.~~

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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SCOPA Chapter 2.pdf

From:	Nucciarone, Michael (ENERGY)
To:	Whytock, John (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	SCOPA Chapter 2
Date:	February 9, 2018 3:54:12 PM
Attachments:	1. SCOPA QAs_MOE_20180208 - Approved.docx 2. ENE Response Table - Final - 20180207.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx Status Table_Ch 2 of AG AR_SCOPA_20180208.docx

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Hi John,

Following the SoC briefing this afternoon on SCOPA Chapter 2, Martin had asked if ENERGY's materials were shared with our MO?
Wanted to check in to see if you happened to share materials with MO?

If not, I am happy to. If you would prefer to send, I defer to you.

Thanks,
Mike

1. SCOPA QAs_MOE_20180208 - Approved_5.pdf

QUESTIONS & ANSWERS

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Other ..... **Error! Bookmark not defined.**

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;

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- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:

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Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the

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search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-

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Issue/Consideration	Strategy	Key Messages
		party experts to provide advice and ensure due diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover

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Issue/Consideration	Strategy	Key Messages
	guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 2018_4.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

DRAFT

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

DRAFT

SCOPA Chapter 3 - FINAL.pdf

From:	Hume, Steen (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	SCOPA Chapter 3 - FINAL
Date:	March 2, 2018 12:43:02 PM
Attachments:	SCOPA Chapter 3 - FINAL.docx

Hi. Attached are the updated Q&A and key messages package.

Thanks,

SCOPA Chapter 3 - FINAL_7.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Additional Legislative Power for OEB, MSP and MACD:

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendation, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, and is authorized to impose sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Additional Legislative Power for OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide MSP or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including the investigatory powers of MSP and Market Assessment and Compliance Division (MACD) and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

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To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted is our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP and OEB.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 - March 5 - Clean - QA package(1).pdf

From:	Hume, Steen (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	SCOPA Chapter 3 - March 5 - Clean - QA package
Date:	March 6, 2018 1:50:57 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean - QA package.docx

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Hi. I'm good with the attached version.

Thanks,

SCOPA Chapter 3 - March 5 - Clean - QA packag_3.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- ~~However, we disagree with a number of the report's findings, including:~~

  - ~~The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and~~

  - ~~The comments on the Industrial Conservation Initiative (ICI).~~

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

- With respect to the Industrial Conservation Initiative (ICI), the program benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Industrial Conservation Initiative (ICI):

- ~~The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.~~

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

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- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

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- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

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- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 - March 5 - Clean - QA package.pdf

From:	Nucciarone, Michael (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	SCOPA Chapter 3 - March 5 - Clean - QA package
Date:	March 6, 2018 12:52:29 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean - QA package.docx

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Hi Hilary,

As discussed, attached is the proposed edit to the QA package based on the Deputy's feedback. Upfront on page one.

Thanks,
Mike

SCOPA Chapter 3 - March 5 - Clean - QA packag_4.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- ~~However, we disagree with a number of the report's findings, including:~~

  - ~~The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and~~

  - ~~The comments on the Industrial Conservation Initiative (ICI).~~

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

- With respect to the Industrial Conservation Initiative (ICI), the program benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Industrial Conservation Initiative (ICI):

- ~~The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.~~

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

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- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

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- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

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- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 - March 5 - OEB ESPD.pdf

From: Cox, Hilary (ENERGY)
To: Christie, Tim (ENERGY)
Subject: SCOPA Chapter 3 - March 5 - OEB ESPD
Date: March 5, 2018 4:58:19 PM
Attachments: SCOPA Chapter 3 - March 5 - OEB ESPD.docx

SCOPA Chapter 3 - March 5 - OEB ESPD_3.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

~~Additional Legislative Power~~Roles and legislative powers ~~for~~of OEB, MSP and MACD:

Commented [LA(1]: Edited for more precision – MSP is not necessarily being considered for additional legislative authority, nor was this the AG's recommendation

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

Market Surveillance Panel's – Recommendations

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with the Independent Electricity System Operator (IESO).

IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

MACD Investigations

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD).

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Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB),
- OEB's Market Surveillance Panel (MSP);
- IESO's Market Assessment and Compliance Division.

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants, and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

~~Additional Legislative Power~~ Roles and legislative powers ~~for~~ of OEB, MSP and MACD

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide ~~MSP~~ OEB or MACD with additional powers?

Commented [LA(2]: The AG's recommendation pertains to the board's legislative powers (not msp's) in relation to amending market rules.

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, , including:

- Reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence,

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- ~~and~~ Reviewing ~~t~~the ~~role and~~ authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure ~~potential~~any abuse of the market rules is adequately addressed. ~~in the market rule amendment process, particularly in instances of potential abuse of the market rules.~~

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB~~, MSP~~ and MACD is under review as highlighted i~~s~~n our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

Q. Why is Ontario Power Generation, a government-controlled entity, under investigation for gaming the electricity market? What is the status of the investigation?

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Placeholder for input from IESO.

Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the ~~enforcement of electricity market rules and the~~ response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.

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The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

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As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

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Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss.

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This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and
- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 - Prep Meeting (1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Neil Brodie
Subject:	SCOPA Chapter 3 - Prep Meeting
Date:	February 8, 2018 6:56:00 PM
Attachments:	SCOPA Chapter 3 - Swim Lanes- DRAFT - 20180125_DRAFT.XLSX Status Table_Ch 3 of AG AR_SCOPA_Draft.docx SCOPA_QA_Friendly_Chapter 3.docx Agenda _SCOPA Chapt 3_Feb 9.docx

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Hi Neil,

Attached are the materials for tomorrow morning's meeting on SCOPA Chapter 3:

- Meeting Agenda
- Swim Lanes Chart
- Response to OAG's Recommendations Chart
- Friendly Q&A

Thanks,
Martin

SCOPA Chapter 3 - Swim Lanes- DRAFT - 2018012_1.pdf

Key Issues	Ministry of Energy	IESO				OEB	
	Deputy Minister	Pres. & CEO, IESO	COO & VP, Planning, Acquisition and Operations	Director, Market Assessment and Compliance Division	VP Information and Technology Services (Acting)	Chair &CEO, OEB	Chair, Market Surveillance Panel
	Serge Imbrogno	Peter Gregg	Leonard Kula	Glenn McDonald	Sorana Ionescu	Rosemarie Leclair	Glen Leslie
Market Oversight and Cybersecurity							
Rec #1 a) Implement MSP recommendations		X					
Rec #1 b) Amend market rule		X					
Rec #2 Revoke and refer market rules						X	
Rec #3 Review legislative power of OEB	X						
Rec #4 Review impact of ICI	X						
Rec #5 Provide RTGC analysis to OEB			X				
Rec #6 Implement MSP recommendations on RTGC			X				
Rec #7Implement MSP recommendations on CMSC			X				
Rec #8 a) Prohibit reps from Market Renewal working group			X				
Rec #8 b) Consumper reps on Market Renewal working group			X				
Rec #8 c) Report market Renewal results			X				
Rec #9 a) Assess MACD resources				X			
Rec #9 b) Attract MACD staff				X			
Rec #10 Give MACD legislative authority	X						
Rec #11 Replace MACD computers				X			
Rec #12 Change MACD reporting structure				X			
Rec #13 Cybersecurity Executive role		X					
Rec #14 Increase Cybersecurity staff		X					
Rec #15 Involve Cybersecurity staff					X		
Rec #16 Procure technology					X		
Rec #17 a) Vendor Cybersecurity policy					X		
Rec #17 b) Security risk assessments					X		
Rec #18 a) Encrypt backup tapes					X		
Rec #18 b) Store backup tapes					X		

* Note: Ministry and Agencies to determine appropriate representation

Status Table_Ch 3 of AG AR_SCOPA_Draft_3.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

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Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

The Industrial Conservation Initiative (ICI) allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It should be noted that the Industrial Conservation Initiative (ICI) is a voluntary program and eligible consumers are able to opt in or out in June of each year.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, Industrial Conservation Initiative (ICI) participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to regulated and contracted generators to ensure they can recover their fixed costs, including nuclear, hydro, natural gas, and renewables. In addition, Global Adjustment (GA) also recovers costs associated with running conservation programs in the province.

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time, including variable costs incurred by generators to produce electricity, such as fuel. If HOEP is insufficient to cover long term capital costs incurred by generators as included in their regulated or contracted rates, Global Adjustment (GA) makes up the difference. Conversely, when market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

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As a result, Global Adjustment (GA) varies from month to month, responding to changes in the Hourly Ontario Energy Price (HOEP) compared to contracted and regulated prices. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in Ontario electricity demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

The Global Adjustment (GA) has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

All consumers pay Global Adjustment (GA), however there is variation in how different types of customers are charged. All non-ICI participants pay GA as a volumetric charge, either through the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) or as a separate line item on their bill. This means that they pay the same GA rate on every kilowatt-hour consumed.

However, participants in the Industrial Conservation Initiative (ICI) program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. Participants work to forecast when system peak hours will occur, which depends on a number of factors that influence when Ontarians consume electricity, such as time of day, time of year, and the weather, and then work to reduce consumption during those hours using any number of strategies, such as changing the operating profiles of industrial equipment.

If a Class A consumer is assessed, for example, to be responsible for one per cent of Ontario's peak demand for the five highest hours in a year, they will be charged for one per cent of total GA costs each month through the next year.

This allows participants to manage their GA costs by consuming less during peak hours. As a result, Industrial Conservation Initiative (ICI) participants pay for the electricity system costs that are recovered through the GA – costs which increase with higher system peak demand – in proportion to their contribution to those costs.

Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative (ICI) provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial. By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

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Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs, because they are contributing to the incurrence of electricity system costs associated with higher peak demand. Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs. The recovery mechanism under Industrial Conservation Initiative (ICI) maintains this relationship between a consumer's electricity costs and their contribution to provincial peak demand.

An electricity system's long run costs – as opposed to short run costs, such as fuel – are largely a function of capital investments in the infrastructure required to meet maximum demand. Therefore it follows that the recovery of long term costs should be a function of consumption during peak demand periods. Simply put, Industrial Conservation Initiative (ICI) is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, Industrial Conservation Initiative (ICI) works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

Further, because Industrial Conservation Initiative (ICI) helps industrial consumers lower electricity prices by one-third on average, it helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to Industrial Conservation Initiative (ICI), indicative industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, as reported by the U.S. Energy Information Administration.

It is also important to note that we have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. To this end, we have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

History of Industrial Conservation Initiative and Expansions

Initially Industrial Conservation Initiative (ICI) was available to consumers with peak demand above five megawatts (MW). Effective July 2015, Class A consumer status was extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors, with the North American Industry Classification System (NAICS) codes beginning with 21, 31-22, 518, 1114, and 493120.

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In January 2017, regulatory amendments took effect that further expanded the Industrial Conservation Initiative (ICI) program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the prior threshold of three megawatts. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the Industrial Conservation Initiative (ICI) has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. These consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 Industrial Conservation Initiative (ICI) participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Expanding participation in the Industrial Conservation Initiative (ICI) program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The Industrial Conservation Initiative (ICI) has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to:

- The peak electricity demand of a city roughly the size of Mississauga, OR
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area, OR
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016.

The Ontario electricity system is now well placed to continue to meet demand for electricity and remain focussed on taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in this objective. The contracts for several Non-Utility Generator (NUG) facilities have recently ended and

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these facilities have not been re-contracted. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast.

Future reductions in peak demand due to Industrial Conservation Initiative (ICI) are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

The Industrial Conservation Initiative (ICI) is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

Q. Ontario Energy Board Review Exercise

Commented [HS(1]: SNAP to prepare friendly question

Response

Thank you members of the Committee. I understand there is interest in the Auditor General's recommendations regarding the Ontario Energy Board's oversight of the Independent Electricity System Operator's market rules.

I understand this interest, given the critical role the Ontario Energy Board (OEB) plays.

The Ontario Energy Board (OEB) is the Province's regulator of the energy sector in Ontario. Its stated mission is to promote a viable, sustainable and efficient energy sector that serves the public interest, and protect consumers with respect to prices, adequacy, reliability and quality of service.

I would like to inform the Committee of a new initiative announced by the Ministry that will be reviewing the Ontario Energy Board's (OEB) role in the electricity sector, including its market oversight mandate.

On December 14, 2017, Minister Thibeault announced the formation of the *Ontario Energy Board Modernization Review Panel*.

The Panel, Chaired by Richard Dicerni, will spend 2018 consulting with consumers, industry, Local Distribution Companies, innovators, and economic regulators from other

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jurisdictions to deliver an action plan for regulatory modernization. It will report to the Minister by the end of 2018.

The OEB Modernization Review Panel is a recognition that as Ontario seeks to renew its energy systems for the future, a fundamental and foundational review of the Ontario Energy Board (OEB) is necessary to guide and support the immense technology change that is coming.

Personal home electricity storage, more families driving electric vehicles, and the presence of more distributed energy resources with the increase in net-metering all hold the potential to disrupt our electricity system and, by extension, our regulatory framework.

This is a reality reflected in our 2017 Long-Term Energy Plan (2017 LTEP). Our 2017 LTEP calls for the Ontario Energy Board (OEB) to build off the work it has achieved to-date and continue to enhance the ability of the regulatory framework to accommodate new technologies.

In conducting this review of the Ontario Energy Board (OEB), we will take a longer, more strategic perspective. This effort will look to optimize the Board's efforts across all of its activities, and thus goes beyond any single policy consultation such as LTEP. It is important to recognize that this Panel is not a critique of our existing structures or systems. It's an awareness that the status quo is changing.

Given that the evolution of the sector will take place over decades, and that there will be a need to remain flexible in response to innovations we cannot predict yet, the Ministry is asking for the best advice on how best to respond to the regulatory challenges and opportunities at hand.

The scope of the OEB Modernization Review Panel will be significant, in recognition of the challenges ahead. Government will not presume or attempt to direct the outcomes. And Richard Dicerni, with considerable experience in both government and the energy sector, is the right choice to lead this critical task.

Richard is a former Deputy Minister at both the Ontario and federal levels, a former President of Ontario Power Generation and former Secretary of Cabinet in Alberta. Richard is also a recent recipient of the Order of Canada.

Additional Panel members will be appointed in the future. Under Richard's leadership, I'm confident the Ministry will receive a set of recommendations that will optimize the OEB's mandate and activities within the entire energy sector.

I would now like to explain the background work by the Ministry that led to the creation of this Panel, as well as some of the initial expectations of how it will go about its work.

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Mandate Review

It is important to note that the Ontario Energy Board (OEB) is an independent, quasi-judicial tribunal that conducts it work through public hearings and consultations.

It derives its legal authority and responsibility to act as the Province's energy regulator from Provincial legislation set by the government, primarily through the *Ontario Energy Board Act, 1998* (OEBA) and the *Electricity Act, 1998*.

The Ontario Energy Board's (OEB) responsibilities can be grouped into 3 main areas:

1. Market Regulation, which includes setting, rates, licencing market participants, and monitoring ongoing-financial operating performance of utilities.

2. Protecting Consumers, which includes enforcing *the Energy Consumer Protection Act, 2010* and monitoring compliance, keeping consumers informed, and undertaking complaint investigation; and

3. Policy initiatives, which includes developing codes, rules and guidelines, consulting on significant energy issues and emerging trends, and providing advice to government.

As a provincial agency prescribed under the Agencies and Appointments Directive of Treasury Board, the Ontario Energy Board (OEB) must undergo a process called a Mandate Review once every seven years. A Mandate Review is a chance for Ministries to ensure that the activities of their agencies align with the public interest.

A mandate review is an examination of the agency, with a view to answer the following questions:

1. Whether the provincial agency is carrying out the activities and operations that represent its mandate;

2. Whether, and the extent to which, the mandate continues to be relevant to the goals and priorities of the Government of Ontario; and

3. Whether all or part of the functions of the provincial agency are best performed by the provincial agency, or whether they might be better performed by a ministry, another provincial agency, or another entity.

The Ministry completed a Mandate Review of the Ontario Energy Board (OEB) in mid-2017, in parallel with the development of the Long-Term Energy Plan (LTEP). This review found that on the whole, the Ontario Energy Board's (OEB) mandate, initiatives and activities are aligned with the evolving needs of the Ministry. It reconfirmed that the

work that the Ontario Energy Board (OEB) does is both necessary and relevant to the public interest.

The Mandate Review provided a number of recommendations on how the Ontario Energy Board (OEB) improve the sophistication of its business planning, service standards, and performance evaluation. Recommendations focused on the composition and structure of membership of the board and the management committee, and governance and oversight mechanisms such as business plans and annual reports. The Ministry accepted these recommendations and is working with the Ontario Energy Board (OEB) to move them forward in the near-term through the business planning cycle.

Commented [CC(2]: Note: SCOPA could ask for a copy of the mandate review report.

The Mandate Review also, however, identified that given the emerging challenges in the energy sector, the Ministry may wish to consider deeper reforms. To that end, the Review's final recommendation was for the Ministry to consider engaging an expert review panel to determine whether more significant governance changes are appropriate.

The OEB Modernization Review Panel is the Ministry's response to this recommendation. Ontario is not alone in conducting this type of review. Regulators worldwide are undertaking initiatives to support grid modernization. Policy initiatives or regulatory reviews are underway in at least 30 American states.

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Commented [HS(3]: IESO to prepare friendly questions. Need 20 mins of content per question

Likely need 2-3 questions

Q. IESO

Response

- XXX

OEB

Commented [HS(4]: OEB to prepare friendly questions. Need 20 mins of content per question

Q. Role of the Market Surveillance Panel

Response

- XXX

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Agenda _SCOPA Chapt 3_Feb 9_1.pdf

Agenda – SCOPA Chapter 3
February 9, 2018

1. Context / Key Dates
   - Response to Committee – February 21, 2018
   - Committee Appearance – March 7, 2018

2. Products
   - Swim Lanes Chart
   - Response to OAG's Recommendations Chart / MEMO to SCOPA Clerk
   - Friendly Q/As
   - 20 Minutes – Opening Statement
   - General Key Messages / Q&A Package

3. Next Steps
   - Products Production, Review and Approvals (February 2017)
   - Minister / MO Briefing (February 2017 – TBD)

Notes:

SCOPA Chapter 3 - Prep Meeting (2).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	David Barrett
Cc:	Jordan Penic; Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	SCOPA Chapter 3 - Prep Meeting
Date:	February 8, 2018 6:57:00 PM
Attachments:	SCOPA Chapter 3 - Swim Lanes- DRAFT - 20180125_DRAFT.XLSX Status Table_Ch 3 of AG AR_SCOPA_Draft.docx SCOPA_QA_Friendly_Chapter 3.docx Agenda _SCOPA Chapt 3_Feb 9.docx

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Hi David,

Attached are the materials for tomorrow morning's meeting on SCOPA Chapter 3:

- Meeting Agenda
- Swim Lanes Chart
- Response to OAG's Recommendations Chart
- Friendly Q&A

Thanks,
Martin

SCOPA Chapter 3 - Swim Lanes- DRAFT - 2018012_2.pdf

Key Issues	Ministry of Energy	IESO				OEB	
	Deputy Minister	Pres. & CEO, IESO	COO & VP, Planning, Acquisition and Operations	Director, Market Assessment and Compliance Division	VP Information and Technology Services (Acting)	Chair &CEO, OEB	Chair, Market Surveillance Panel
	Serge Imbrogno	Peter Gregg	Leonard Kula	Glenn McDonald	Sorana Ionescu	Rosemarie Leclair	Glen Leslie
Market Oversight and Cybersecurity							
Rec #1 a) Implement MSP recommendations		X					
Rec #1 b) Amend market rule		X					
Rec #2 Revoke and refer market rules						X	
Rec #3 Review legislative power of OEB	X						
Rec #4 Review impact of ICI	X						
Rec #5 Provide RTGC analysis to OEB			X				
Rec #6 Implement MSP recommendations on RTGC			X				
Rec #7Implement MSP recommendations on CMSC			X				
Rec #8 a) Prohibit reps from Market Renewal working group			X				
Rec #8 b) Consumper reps on Market Renewal working group			X				
Rec #8 c) Report market Renewal results			X				
Rec #9 a) Assess MACD resources				X			
Rec #9 b) Attract MACD staff				X			
Rec #10 Give MACD legislative authority	X						
Rec #11 Replace MACD computers				X			
Rec #12 Change MACD reporting structure				X			
Rec #13 Cybersecurity Executive role		X					
Rec #14 Increase Cybersecurity staff		X					
Rec #15 Involve Cybersecurity staff					X		
Rec #16 Procure technology					X		
Rec #17 a) Vendor Cybersecurity policy					X		
Rec #17 b) Security risk assessments					X		
Rec #18 a) Encrypt backup tapes					X		
Rec #18 b) Store backup tapes					X		

* Note: Ministry and Agencies to determine appropriate representation

Status Table_Ch 3 of AG AR_SCOPA_Draft_4.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Report of the Auditor General of Ontario
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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead

Summary Status Table in Response to the
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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

Summary Status Table in Response to the
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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

Summary Status Table in Response to the
Report of the Auditor General of Ontario
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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

Summary Status Table in Response to the
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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

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Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

The Industrial Conservation Initiative (ICI) allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It should be noted that the Industrial Conservation Initiative (ICI) is a voluntary program and eligible consumers are able to opt in or out in June of each year.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, Industrial Conservation Initiative (ICI) participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to regulated and contracted generators to ensure they can recover their fixed costs, including nuclear, hydro, natural gas, and renewables. In addition, Global Adjustment (GA) also recovers costs associated with running conservation programs in the province.

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time, including variable costs incurred by generators to produce electricity, such as fuel. If HOEP is insufficient to cover long term capital costs incurred by generators as included in their regulated or contracted rates, Global Adjustment (GA) makes up the difference. Conversely, when market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

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As a result, Global Adjustment (GA) varies from month to month, responding to changes in the Hourly Ontario Energy Price (HOEP) compared to contracted and regulated prices. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in Ontario electricity demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

The Global Adjustment (GA) has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

All consumers pay Global Adjustment (GA), however there is variation in how different types of customers are charged. All non-ICI participants pay GA as a volumetric charge, either through the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) or as a separate line item on their bill. This means that they pay the same GA rate on every kilowatt-hour consumed.

However, participants in the Industrial Conservation Initiative (ICI) program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. Participants work to forecast when system peak hours will occur, which depends on a number of factors that influence when Ontarians consume electricity, such as time of day, time of year, and the weather, and then work to reduce consumption during those hours using any number of strategies, such as changing the operating profiles of industrial equipment.

If a Class A consumer is assessed, for example, to be responsible for one per cent of Ontario's peak demand for the five highest hours in a year, they will be charged for one per cent of total GA costs each month through the next year.

This allows participants to manage their GA costs by consuming less during peak hours. As a result, Industrial Conservation Initiative (ICI) participants pay for the electricity system costs that are recovered through the GA – costs which increase with higher system peak demand – in proportion to their contribution to those costs.

Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative (ICI) provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial. By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

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Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs, because they are contributing to the incurrence of electricity system costs associated with higher peak demand. Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs. The recovery mechanism under Industrial Conservation Initiative (ICI) maintains this relationship between a consumer's electricity costs and their contribution to provincial peak demand.

An electricity system's long run costs – as opposed to short run costs, such as fuel – are largely a function of capital investments in the infrastructure required to meet maximum demand. Therefore it follows that the recovery of long term costs should be a function of consumption during peak demand periods. Simply put, Industrial Conservation Initiative (ICI) is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, Industrial Conservation Initiative (ICI) works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

Further, because Industrial Conservation Initiative (ICI) helps industrial consumers lower electricity prices by one-third on average, it helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to Industrial Conservation Initiative (ICI), indicative industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, as reported by the U.S. Energy Information Administration.

It is also important to note that we have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. To this end, we have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

History of Industrial Conservation Initiative and Expansions

Initially Industrial Conservation Initiative (ICI) was available to consumers with peak demand above five megawatts (MW). Effective July 2015, Class A consumer status was extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors, with the North American Industry Classification System (NAICS) codes beginning with 21, 31-22, 518, 1114, and 493120.

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In January 2017, regulatory amendments took effect that further expanded the Industrial Conservation Initiative (ICI) program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the prior threshold of three megawatts. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the Industrial Conservation Initiative (ICI) has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. These consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 Industrial Conservation Initiative (ICI) participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Expanding participation in the Industrial Conservation Initiative (ICI) program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The Industrial Conservation Initiative (ICI) has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to:

- The peak electricity demand of a city roughly the size of Mississauga, OR
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area, OR
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016.

The Ontario electricity system is now well placed to continue to meet demand for electricity and remain focussed on taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in this objective. The contracts for several Non-Utility Generator (NUG) facilities have recently ended and

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these facilities have not been re-contracted. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast.

Future reductions in peak demand due to Industrial Conservation Initiative (ICI) are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

The Industrial Conservation Initiative (ICI) is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

Q. Ontario Energy Board Review Exercise

Commented [HS(1]: SNAP to prepare friendly question

Response

Thank you members of the Committee. I understand there is interest in the Auditor General's recommendations regarding the Ontario Energy Board's oversight of the Independent Electricity System Operator's market rules.

I understand this interest, given the critical role the Ontario Energy Board (OEB) plays.

The Ontario Energy Board (OEB) is the Province's regulator of the energy sector in Ontario. Its stated mission is to promote a viable, sustainable and efficient energy sector that serves the public interest, and protect consumers with respect to prices, adequacy, reliability and quality of service.

I would like to inform the Committee of a new initiative announced by the Ministry that will be reviewing the Ontario Energy Board's (OEB) role in the electricity sector, including its market oversight mandate.

On December 14, 2017, Minister Thibeault announced the formation of the *Ontario Energy Board Modernization Review Panel*.

The Panel, Chaired by Richard Dicerni, will spend 2018 consulting with consumers, industry, Local Distribution Companies, innovators, and economic regulators from other

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jurisdictions to deliver an action plan for regulatory modernization. It will report to the Minister by the end of 2018.

The OEB Modernization Review Panel is a recognition that as Ontario seeks to renew its energy systems for the future, a fundamental and foundational review of the Ontario Energy Board (OEB) is necessary to guide and support the immense technology change that is coming.

Personal home electricity storage, more families driving electric vehicles, and the presence of more distributed energy resources with the increase in net-metering all hold the potential to disrupt our electricity system and, by extension, our regulatory framework.

This is a reality reflected in our 2017 Long-Term Energy Plan (2017 LTEP). Our 2017 LTEP calls for the Ontario Energy Board (OEB) to build off the work it has achieved to-date and continue to enhance the ability of the regulatory framework to accommodate new technologies.

In conducting this review of the Ontario Energy Board (OEB), we will take a longer, more strategic perspective. This effort will look to optimize the Board's efforts across all of its activities, and thus goes beyond any single policy consultation such as LTEP. It is important to recognize that this Panel is not a critique of our existing structures or systems. It's an awareness that the status quo is changing.

Given that the evolution of the sector will take place over decades, and that there will be a need to remain flexible in response to innovations we cannot predict yet, the Ministry is asking for the best advice on how best to respond to the regulatory challenges and opportunities at hand.

The scope of the OEB Modernization Review Panel will be significant, in recognition of the challenges ahead. Government will not presume or attempt to direct the outcomes. And Richard Dicerni, with considerable experience in both government and the energy sector, is the right choice to lead this critical task.

Richard is a former Deputy Minister at both the Ontario and federal levels, a former President of Ontario Power Generation and former Secretary of Cabinet in Alberta. Richard is also a recent recipient of the Order of Canada.

Additional Panel members will be appointed in the future. Under Richard's leadership, I'm confident the Ministry will receive a set of recommendations that will optimize the OEB's mandate and activities within the entire energy sector.

I would now like to explain the background work by the Ministry that led to the creation of this Panel, as well as some of the initial expectations of how it will go about its work.

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Mandate Review

It is important to note that the Ontario Energy Board (OEB) is an independent, quasi-judicial tribunal that conducts it work through public hearings and consultations.

It derives its legal authority and responsibility to act as the Province's energy regulator from Provincial legislation set by the government, primarily through the *Ontario Energy Board Act, 1998* (OEBA) and the *Electricity Act, 1998*.

The Ontario Energy Board's (OEB) responsibilities can be grouped into 3 main areas:

1. Market Regulation, which includes setting, rates, licencing market participants, and monitoring ongoing-financial operating performance of utilities.

2. Protecting Consumers, which includes enforcing *the Energy Consumer Protection Act, 2010* and monitoring compliance, keeping consumers informed, and undertaking complaint investigation; and

3. Policy initiatives, which includes developing codes, rules and guidelines, consulting on significant energy issues and emerging trends, and providing advice to government.

As a provincial agency prescribed under the Agencies and Appointments Directive of Treasury Board, the Ontario Energy Board (OEB) must undergo a process called a Mandate Review once every seven years. A Mandate Review is a chance for Ministries to ensure that the activities of their agencies align with the public interest.

A mandate review is an examination of the agency, with a view to answer the following questions:

1. Whether the provincial agency is carrying out the activities and operations that represent its mandate;

2. Whether, and the extent to which, the mandate continues to be relevant to the goals and priorities of the Government of Ontario; and

3. Whether all or part of the functions of the provincial agency are best performed by the provincial agency, or whether they might be better performed by a ministry, another provincial agency, or another entity.

The Ministry completed a Mandate Review of the Ontario Energy Board (OEB) in mid-2017, in parallel with the development of the Long-Term Energy Plan (LTEP). This review found that on the whole, the Ontario Energy Board's (OEB) mandate, initiatives and activities are aligned with the evolving needs of the Ministry. It reconfirmed that the

work that the Ontario Energy Board (OEB) does is both necessary and relevant to the public interest.

The Mandate Review provided a number of recommendations on how the Ontario Energy Board (OEB) improve the sophistication of its business planning, service standards, and performance evaluation. Recommendations focused on the composition and structure of membership of the board and the management committee, and governance and oversight mechanisms such as business plans and annual reports. The Ministry accepted these recommendations and is working with the Ontario Energy Board (OEB) to move them forward in the near-term through the business planning cycle.

Commented [CC(2]: Note: SCOPA could ask for a copy of the mandate review report.

The Mandate Review also, however, identified that given the emerging challenges in the energy sector, the Ministry may wish to consider deeper reforms. To that end, the Review's final recommendation was for the Ministry to consider engaging an expert review panel to determine whether more significant governance changes are appropriate.

The OEB Modernization Review Panel is the Ministry's response to this recommendation. Ontario is not alone in conducting this type of review. Regulators worldwide are undertaking initiatives to support grid modernization. Policy initiatives or regulatory reviews are underway in at least 30 American states.

IESO

Commented [HS(3]: IESO to prepare friendly questions. Need 20 mins of content per question

Likely need 2-3 questions

Q. IESO

Response

- XXX

OEB

Commented [HS(4]: OEB to prepare friendly questions. Need 20 mins of content per question

Q. Role of the Market Surveillance Panel

Response

- XXX

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Agenda _SCOPA Chapt 3_Feb 9_2.pdf

Agenda – SCOPA Chapter 3
February 9, 2018

1. Context / Key Dates
   - Response to Committee – February 21, 2018
   - Committee Appearance – March 7, 2018

2. Products
   - Swim Lanes Chart
   - Response to OAG's Recommendations Chart / MEMO to SCOPA Clerk
   - Friendly Q/As
   - 20 Minutes – Opening Statement
   - General Key Messages / Q&A Package

3. Next Steps
   - Products Production, Review and Approvals (February 2017)
   - Minister / MO Briefing (February 2017 – TBD)

Notes:

SCOPA Chapter 3 - Prep Meeting .pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Cox, Hilary (ENERGY); Whytock, John (ENERGY)
Subject:	SCOPA Chapter 3 - Prep Meeting
Date:	February 8, 2018 5:51:25 PM
Attachments:	SCOPA Chapter 3 - Swim Lanes- DRAFT - 20180125_DRAFT.XLSX Status Table_Ch 3 of AG AR_SCOPA_Draft.docx SCOPA_QA_Friendly_Chapter 3.docx Agenda _SCOPA Chapt 3_Feb 9.docx

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Hi Martin: as discussions, attached are the proposed materials for tomorrow meeting with IESO and OEB re SCOPA Chapter 3. We should likely treat these as "works in progress".

- Meeting Agenda
- Swim Lanes Chart
- Response to OAG's Recommendations Chart
- Friendly Q&A

If you have any questions, let me know. Cheer, Steen

SCOPA Chapter 3 - Swim Lanes- DRAFT - 2018012_3.pdf

Key Issues	Ministry of Energy	IESO				OEB	
	Deputy Minister	Pres. & CEO, IESO	COO & VP, Planning, Acquisition and Operations	Director, Market Assessment and Compliance Division	VP Information and Technology Services (Acting)	Chair &CEO, OEB	Chair, Market Surveillance Panel
	Serge Imbrogno	Peter Gregg	Leonard Kula	Glenn McDonald	Sorana Ionescu	Rosemarie Leclair	Glen Leslie
Market Oversight and Cybersecurity							
Rec #1 a) Implement MSP recommendations		X					
Rec #1 b) Amend market rule		X					
Rec #2 Revoke and refer market rules						X	
Rec #3 Review legislative power of OEB	X						
Rec #4 Review impact of ICI	X						
Rec #5 Provide RTGC analysis to OEB			X				
Rec #6 Implement MSP recommendations on RTGC			X				
Rec #7Implement MSP recommendations on CMSC			X				
Rec #8 a) Prohibit reps from Market Renewal working group			X				
Rec #8 b) Consumper reps on Market Renewal working group			X				
Rec #8 c) Report market Renewal results			X				
Rec #9 a) Assess MACD resources				X			
Rec #9 b) Attract MACD staff				X			
Rec #10 Give MACD legislative authority	X						
Rec #11 Replace MACD computers				X			
Rec #12 Change MACD reporting structure				X			
Rec #13 Cybersecurity Executive role		X					
Rec #14 Increase Cybersecurity staff		X					
Rec #15 Involve Cybersecurity staff					X		
Rec #16 Procure technology					X		
Rec #17 a) Vendor Cybersecurity policy					X		
Rec #17 b) Security risk assessments					X		
Rec #18 a) Encrypt backup tapes					X		
Rec #18 b) Store backup tapes					X		

* Note: Ministry and Agencies to determine appropriate representation

Status Table_Ch 3 of AG AR_SCOPA_Draft_5.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	a) The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP in the past and has made a number of market rule amendments as a result. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. b) Where the MSP submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under section 38 of the Electricity Act, 1998 including amending the market rules where so ordered by the Board.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.*	The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its Market Surveillance Panel (MSP), and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011 the OEB has regularly corresponded with the Independent Electricity System Operator (IESO) regarding the recommendations the MSP makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in MSP reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the MSP are appropriately addressed in a timely manner.	OEB Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	The Ministry supports the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and IESO, will review the Electricity Act, 1998 regarding the market rule approval process. The Ministry will also review the authority of the OEB regarding the enforcement of market rules and the response to abuses and gaming of market rules.	ENERGY Lead
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming*	The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand.	ENERGY Lead

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
ratepayers and publicly report this information.	Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduce peak demand by about 1,300 MW in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of GA costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small business consumers will not be influenced by ICI expansion. OFHP reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.	
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is*	In 2018, the IESO will present to the MSP a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee (RT-GCG) Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
necessary to ensure a reliable supply of electricity for Ontarians.		
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations and not reimburse generators for operating and maintenance costs under the Program.*	The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (RT-GCG) have fallen from $61 million in 2014 to $23 million in 2016. In light of MSP recommendations, the IESO implemented a new cost recovery framework for this program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the program for each program participant. This change introduced transparency and removed the potential for overpayments and the need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the RT-GCG audits. IE The IESO acknowledges issues with the current RT-GCG Program in our responses to previous MSP reports and has committed to replace it. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Enhanced Real-Time Unit Commitment (ERUC) initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real-time.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	The IESO acknowledges the recommendation made by the Auditor General and carefully considers every MSP recommendation and their underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the MSP related to Congestion Management Settlement Credits (CMSC) and has implemented more than a dozen market rule amendments regarding CMSC. In light of the recommendations made by the MSP over the years, IESO will continue to consider the MSP recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of IESO and market participants to implement the change. The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers. The Single Schedule Market (SSM) initiative of Market Renewal will eliminate Congestion Management Settlement Credits.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group;* • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal seek representation from low volume consumers, where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public, and are guided by seven engagement principles that were put in place in November 2015. One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 18] to have a Stakeholder Advisory Committeethat provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal, directly to the IESO's independent Board of Directors and Leadership Team. Members include low volume consumers.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendations, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority.	IESO Lead
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	The Ministry supports the vital roles that the Independent Electricity System Operator's (IESO) Market Assessment and Compliance Division (MACD) plays in investigating potential infractions in Ontario's electricity system. To ensure that MACD can effectively conduct its investigations, the Ministry will consult with IESO regarding the potential need	ENERGY Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	for additional legislative authority to assist MACD in performing its mandated duties.	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system.	IESO Lead
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's reporting structure.*	The IESO agrees with the Auditor General's recommendation. The IESO independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors.	IESO Lead
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the OAGO's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA) that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber incident.	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. It is IESO's current practice that security risk assessments are incorporated in the IT project management practices, having said that the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cyber security staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office which will ensure an enterprise holistic view on all IESO projects.	IESO Lead
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.*	The IESO agrees with the Auditor General's recommendations. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	Malware project and is implementing that technology now with a target completion date of the end of Q4 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. The cyber security team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards and is in the process of developing and implementing supply chain risk management measures to comply with these standards which will also include processes that are responsive to the recommendation.	IESO Lead
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and*	The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards. Access to backup tapes is tightly controlled both in on-sight and off-site storage. The IESO will investigate the feasibility of further protecting them with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our	IESO Lead

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
• *store them in a secure off-site location.*	critical systems are high availability and site redundant through our Backup Data Centre.	

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Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

The Industrial Conservation Initiative (ICI) allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It should be noted that the Industrial Conservation Initiative (ICI) is a voluntary program and eligible consumers are able to opt in or out in June of each year.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs. In other words, Industrial Conservation Initiative (ICI) participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to regulated and contracted generators to ensure they can recover their fixed costs, including nuclear, hydro, natural gas, and renewables. In addition, Global Adjustment (GA) also recovers costs associated with running conservation programs in the province.

The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time, including variable costs incurred by generators to produce electricity, such as fuel. If HOEP is insufficient to cover long term capital costs incurred by generators as included in their regulated or contracted rates, Global Adjustment (GA) makes up the difference. Conversely, when market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

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As a result, Global Adjustment (GA) varies from month to month, responding to changes in the Hourly Ontario Energy Price (HOEP) compared to contracted and regulated prices. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in Ontario electricity demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

The Global Adjustment (GA) has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a reliable supply of electricity.

All consumers pay Global Adjustment (GA), however there is variation in how different types of customers are charged. All non-ICI participants pay GA as a volumetric charge, either through the Ontario Energy Board's (OEB) Regulated Price Plan (RPP) or as a separate line item on their bill. This means that they pay the same GA rate on every kilowatt-hour consumed.

However, participants in the Industrial Conservation Initiative (ICI) program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. Participants work to forecast when system peak hours will occur, which depends on a number of factors that influence when Ontarians consume electricity, such as time of day, time of year, and the weather, and then work to reduce consumption during those hours using any number of strategies, such as changing the operating profiles of industrial equipment.

If a Class A consumer is assessed, for example, to be responsible for one per cent of Ontario's peak demand for the five highest hours in a year, they will be charged for one per cent of total GA costs each month through the next year.

This allows participants to manage their GA costs by consuming less during peak hours. As a result, Industrial Conservation Initiative (ICI) participants pay for the electricity system costs that are recovered through the GA – costs which increase with higher system peak demand – in proportion to their contribution to those costs.

Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative (ICI) provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial. By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

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Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs, because they are contributing to the incurrence of electricity system costs associated with higher peak demand. Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs. The recovery mechanism under Industrial Conservation Initiative (ICI) maintains this relationship between a consumer's electricity costs and their contribution to provincial peak demand.

An electricity system's long run costs – as opposed to short run costs, such as fuel – are largely a function of capital investments in the infrastructure required to meet maximum demand. Therefore it follows that the recovery of long term costs should be a function of consumption during peak demand periods. Simply put, Industrial Conservation Initiative (ICI) is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, Industrial Conservation Initiative (ICI) works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

Further, because Industrial Conservation Initiative (ICI) helps industrial consumers lower electricity prices by one-third on average, it helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to Industrial Conservation Initiative (ICI), indicative industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, as reported by the U.S. Energy Information Administration.

It is also important to note that we have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. To this end, we have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

History of Industrial Conservation Initiative and Expansions

Initially Industrial Conservation Initiative (ICI) was available to consumers with peak demand above five megawatts (MW). Effective July 2015, Class A consumer status was extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors, with the North American Industry Classification System (NAICS) codes beginning with 21, 31-22, 518, 1114, and 493120.

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In January 2017, regulatory amendments took effect that further expanded the Industrial Conservation Initiative (ICI) program to include more than one thousand newly eligible customers with monthly peak demand greater than one megawatt, down from the prior threshold of three megawatts. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the Industrial Conservation Initiative (ICI) has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible. These consumers include those with NAICS codes starting with 31-33 and 1114. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 Industrial Conservation Initiative (ICI) participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Expanding participation in the Industrial Conservation Initiative (ICI) program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The Industrial Conservation Initiative (ICI) has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to:

- The peak electricity demand of a city roughly the size of Mississauga, OR
- Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area, OR
- Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016.

The Ontario electricity system is now well placed to continue to meet demand for electricity and remain focussed on taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in this objective. The contracts for several Non-Utility Generator (NUG) facilities have recently ended and

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these facilities have not been re-contracted. In addition, the second round of the large renewable procurement process (LRP II) and the Energy-from-Waste Standard Offer Program have been suspended based on the review of the supply and demand context, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 Long-Term Energy Plan (2013 LTEP) forecast.

Future reductions in peak demand due to Industrial Conservation Initiative (ICI) are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan (2017 LTEP).

The Industrial Conservation Initiative (ICI) is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

Q. Ontario Energy Board Review Exercise

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Response

Thank you members of the Committee. I understand there is interest in the Auditor General's recommendations regarding the Ontario Energy Board's oversight of the Independent Electricity System Operator's market rules.

I understand this interest, given the critical role the Ontario Energy Board (OEB) plays.

The Ontario Energy Board (OEB) is the Province's regulator of the energy sector in Ontario. Its stated mission is to promote a viable, sustainable and efficient energy sector that serves the public interest, and protect consumers with respect to prices, adequacy, reliability and quality of service.

I would like to inform the Committee of a new initiative announced by the Ministry that will be reviewing the Ontario Energy Board's (OEB) role in the electricity sector, including its market oversight mandate.

On December 14, 2017, Minister Thibeault announced the formation of the *Ontario Energy Board Modernization Review Panel*.

The Panel, Chaired by Richard Dicerni, will spend 2018 consulting with consumers, industry, Local Distribution Companies, innovators, and economic regulators from other

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jurisdictions to deliver an action plan for regulatory modernization. It will report to the Minister by the end of 2018.

The OEB Modernization Review Panel is a recognition that as Ontario seeks to renew its energy systems for the future, a fundamental and foundational review of the Ontario Energy Board (OEB) is necessary to guide and support the immense technology change that is coming.

Personal home electricity storage, more families driving electric vehicles, and the presence of more distributed energy resources with the increase in net-metering all hold the potential to disrupt our electricity system and, by extension, our regulatory framework.

This is a reality reflected in our 2017 Long-Term Energy Plan (2017 LTEP). Our 2017 LTEP calls for the Ontario Energy Board (OEB) to build off the work it has achieved to-date and continue to enhance the ability of the regulatory framework to accommodate new technologies.

In conducting this review of the Ontario Energy Board (OEB), we will take a longer, more strategic perspective. This effort will look to optimize the Board's efforts across all of its activities, and thus goes beyond any single policy consultation such as LTEP. It is important to recognize that this Panel is not a critique of our existing structures or systems. It's an awareness that the status quo is changing.

Given that the evolution of the sector will take place over decades, and that there will be a need to remain flexible in response to innovations we cannot predict yet, the Ministry is asking for the best advice on how best to respond to the regulatory challenges and opportunities at hand.

The scope of the OEB Modernization Review Panel will be significant, in recognition of the challenges ahead. Government will not presume or attempt to direct the outcomes. And Richard Dicerni, with considerable experience in both government and the energy sector, is the right choice to lead this critical task.

Richard is a former Deputy Minister at both the Ontario and federal levels, a former President of Ontario Power Generation and former Secretary of Cabinet in Alberta. Richard is also a recent recipient of the Order of Canada.

Additional Panel members will be appointed in the future. Under Richard's leadership, I'm confident the Ministry will receive a set of recommendations that will optimize the OEB's mandate and activities within the entire energy sector.

I would now like to explain the background work by the Ministry that led to the creation of this Panel, as well as some of the initial expectations of how it will go about its work.

DRAFT

Mandate Review

It is important to note that the Ontario Energy Board (OEB) is an independent, quasi-judicial tribunal that conducts it work through public hearings and consultations.

It derives its legal authority and responsibility to act as the Province's energy regulator from Provincial legislation set by the government, primarily through the *Ontario Energy Board Act, 1998* (OEBA) and the *Electricity Act, 1998*.

The Ontario Energy Board's (OEB) responsibilities can be grouped into 3 main areas:

1. Market Regulation, which includes setting, rates, licencing market participants, and monitoring ongoing-financial operating performance of utilities.

2. Protecting Consumers, which includes enforcing *the Energy Consumer Protection Act, 2010* and monitoring compliance, keeping consumers informed, and undertaking complaint investigation; and

3. Policy initiatives, which includes developing codes, rules and guidelines, consulting on significant energy issues and emerging trends, and providing advice to government.

As a provincial agency prescribed under the Agencies and Appointments Directive of Treasury Board, the Ontario Energy Board (OEB) must undergo a process called a Mandate Review once every seven years. A Mandate Review is a chance for Ministries to ensure that the activities of their agencies align with the public interest.

A mandate review is an examination of the agency, with a view to answer the following questions:

1. Whether the provincial agency is carrying out the activities and operations that represent its mandate;

2. Whether, and the extent to which, the mandate continues to be relevant to the goals and priorities of the Government of Ontario; and

3. Whether all or part of the functions of the provincial agency are best performed by the provincial agency, or whether they might be better performed by a ministry, another provincial agency, or another entity.

The Ministry completed a Mandate Review of the Ontario Energy Board (OEB) in mid-2017, in parallel with the development of the Long-Term Energy Plan (LTEP). This review found that on the whole, the Ontario Energy Board's (OEB) mandate, initiatives and activities are aligned with the evolving needs of the Ministry. It reconfirmed that the

work that the Ontario Energy Board (OEB) does is both necessary and relevant to the public interest.

The Mandate Review provided a number of recommendations on how the Ontario Energy Board (OEB) improve the sophistication of its business planning, service standards, and performance evaluation. Recommendations focused on the composition and structure of membership of the board and the management committee, and governance and oversight mechanisms such as business plans and annual reports. The Ministry accepted these recommendations and is working with the Ontario Energy Board (OEB) to move them forward in the near-term through the business planning cycle.

Commented [CC(2]: Note: SCOPA could ask for a copy of the mandate review report.

The Mandate Review also, however, identified that given the emerging challenges in the energy sector, the Ministry may wish to consider deeper reforms. To that end, the Review's final recommendation was for the Ministry to consider engaging an expert review panel to determine whether more significant governance changes are appropriate.

The OEB Modernization Review Panel is the Ministry's response to this recommendation. Ontario is not alone in conducting this type of review. Regulators worldwide are undertaking initiatives to support grid modernization. Policy initiatives or regulatory reviews are underway in at least 30 American states.

IESO

Commented [HS(3]: IESO to prepare friendly questions. Need 20 mins of content per question

Likely need 2-3 questions

Q. IESO

Response

- XXX

OEB

Commented [HS(4]: OEB to prepare friendly questions. Need 20 mins of content per question

Q. Role of the Market Surveillance Panel

Response

- XXX

DRAFT

Agenda _SCOPA Chapt 3_Feb 9_3.pdf

Agenda – SCOPA Chapter 3
February 9, 2018

1. Context / Key Dates
   - Response to Committee – February 21, 2018
   - Committee Appearance – March 7, 2018

2. Products
   - Swim Lanes Chart
   - Response to OAG's Recommendations Chart / MEMO to SCOPA Clerk
   - Friendly Q/As
   - 20 Minutes – Opening Statement
   - General Key Messages / Q&A Package

3. Next Steps
   - Products Production, Review and Approvals (February 2017)
   - Minister / MO Briefing (February 2017 – TBD)

Notes:

SCOPA Chapter 3 - QA .pdf

From:	Hume, Steen (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	SCOPA Chapter 3 - QA
Date:	March 5, 2018 6:15:12 PM
Attachments:	SCOPA Chapter 3 - March 5 - Clean.docx SCOPA Chapter 3 - March 5 - Tracked.docx

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Hi. Attached are updated SCOPA Chapter 3 Q&As (tracked and clean). This also includes minor input from OEB per the meeting (i.e., OEB is not on the market renewal working group).

Re Q&A on OEB and IESO powers with respect to market rules, it is also being reviewed by LSB. We've included the draft language so folks get a better sense of how it is being framed.

Thanks,

SCOPA Chapter 3 - March 5 - Clean_2.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***Roles and Legislative Powers of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

<u>Instances of Generators Claiming Ineligible Costs</u>

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

<u>Next Steps for the Electricity Market</u>

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

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- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

<u>Roles and Legislative Powers of OEB, IESO, MSP and MACD</u>

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, is authorized under the market rules to request further information from market participants and imposes sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- Reviewing the authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure any abuse of the market rules is adequately addressed.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB and MACD is under review as highlighted in our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

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According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

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It’s important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator’s stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province’s electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system’s needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government’s plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division’s investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division’s lack of powers to fulfill its role adequately?

We are confident in our system operator’s ability to administer an efficient and fair electricity market, as well as the Panel’s ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario’s surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren’t you just paying generators to ‘standby’ for electricity that’s won’t be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

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The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.

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The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having

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additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

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Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues "Interpretation Bulletin" to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

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As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

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Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

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Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special

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divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't

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happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

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Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in additional costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

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According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

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It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input

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from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

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Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15

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eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP.

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We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology

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(NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in “GridX 4,” a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO’s role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

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In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

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Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential

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information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

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As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 - March 5 - Tracked_3.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 3, Public Accounts of the Province
Key Messages, Q&A Response and Issues
~~February 2018~~ March 2018

KEY MESSAGES

- We remain committed to working with the Office of the Auditor General and respectfully reviewing the independent views it provides to the Legislative Assembly.

- However, we disagree with a number of the report's findings, including:

    - The characterisation of certain electricity reliability programs – programs that ensure Ontario families and businesses have an electricity system they can count on every second of every day; and

    - The comments on the Industrial Conservation Initiative (ICI).

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- According to IESO, both programs that are the subject of the Auditor General's analysis are required for system reliability and ensure we continue to meet North American reliability standards.

- If these programs were eliminated, reliability would be put at risk.

Industrial Conservation Initiative (ICI):

- The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

- Our electricity system is planned to ensure we have enough generation to meet peak demand.

- By keeping peak system demand as low as it can be, we can avoid building costly new generation.

- This makes the system more cost-effective for all ratepayers.

- Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

- The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

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- The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

***~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~of OEB, MSP and MACD*:**

- We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

- We are working closely with IESO and OEB to ensure effective market oversight mechanisms, including reviewing the investigatory powers of ~~MSP and~~ IESO's Market Assessment and Compliance Division (MACD), and the role and authority of OEB in the market rule amendment process, particularly in instances of potential abuse of the market rules.

- This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

- The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Real-Time Generation Cost Guarantee (RT-GCG) and Congestion Management Settlement Credit (CMSC) Programs:

Instances of Generators Claiming Ineligible Costs

- Our system operator continues to take strong action when market participants contravene the market rules – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

- All actions taken put the ratepayer first by aiming to maintain reliability and reduce costs. This includes striving to recoup the maximum amount of costs, while minimizing legal fees.

- Both programs are required to keep the grid stable. If these programs were removed, reliability would be put at risk.

Next Steps for the Electricity Market

- Our system operator is working to transform our electricity market.

- The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

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- It is projected that Market Renewal will save up to $5.2 billion over 10 years.

- Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC) with more efficient and transparent mechanisms.

Interim Steps until IESO's Market Renewal Takes Hold

- Until this transformation is complete, our system operator remains committed to ensuring the current electricity market continues to be improved and operates fairly and efficiently for ratepayers across the province.

- Due to ongoing changes and improvements, programs are more efficient today – with the total cost of the Real-Time Generation Cost Guarantee program dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017– a more than approximately 60 per cent cut in program costs over the course of two years.

- In addition, our system operator will continue to prioritize reliability, and optimize programs within the existing electricity system framework.

- Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

- We will also review the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

- To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities.

Cybersecurity:

- Our system operator complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity.

- A recent audit from The North American Electric Reliability Corporation found that the IESO is fully compliant with continent-wide operating standards, including recently introduced cyber asset protection rules that represent significant progress in mitigating cyber risks to the bulk power system. The electricity sector is unique as the only critical infrastructure sector with mandatory and enforceable cybersecurity standards.

- Our system operator takes this very seriously, and is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity.

- Our system operator will also consider creating a senior-level position for cybersecurity with formal reporting to both the system operator's executive leadership and Board of Directors.

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- Our system operator is working to implement an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner in line with the Auditor General's recommendation.

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Q&AS RESPONSE

Industrial Conservation Initiative (ICI)

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Q. The AG Report states that the ICI program is "shifting a significant amount of the global adjustment charge from large industrial ratepayers to residential and small-business ratepayers". Is it fair that these classes of ratepayers are subsidizing electricity costs of big businesses?

The Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these related costs.

This program reduces the need for additional investments in expensive electricity generation infrastructure – benefiting all ratepayers.

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Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga. This program helped us reduce peak demand in the province. Reduced peak demand has allowed us to suspend procurements such as LRP II, saving ratepayers $3.8 billion in costs for the electricity system.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

If pressed, additional details on the peak reduction:

- The peak demand reduction associated with ICI is equivalent to:
    - The peak demand of a city roughly the size of Mississauga[1];
    - Nearly 6 per cent of province-wide peak demand[2];
    - Two gas plants the size of Halton Hills Generating Station west of the Greater Toronto Area[3]; or
    - Nearly three times the amount of demand response that cleared the market in the most recent auction held by the Independent Electricity System Operator (IESO) in December 2016[4].

Q. Will you review the impact of the ICI on low-volume consumers and report it, as recommended by the OAG?

Ontario's Fair Hydro Plan's significant savings for residential consumers and as many as half a million small businesses and farms will not be impacted by this program's expansion.

Ontario's Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25 per cent and will hold any increases to the rate of inflation for four years.

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) on a monthly basis.

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[1] According to the IESO and data from the OEB's 2016 Yearbook, peak demand for Mississauga in the summer of 2016 was 1,455 MW. http://www.ieso.ca/power-data/demand-overview/historical-demand

[2] According to the IESO, peak demand in Ontario was 23,213 MW in 2016 – therefore 1,300 MW represents about 6%.

[3] Halton Hills Generating Station provides 683 MW of capacity – therefore 1,300 MW is approximately twice this amount. https://www.transcanada.com/globalassets/pdfs/power/halton-hills/transcanada-hh-fact-sheet.pdf

[4] The 2016 DR Auction totaled 455 MW for the summer commitment period – therefore 1,300 MW is approximately three times this amount. http://www.ieso.ca/corporate-ieso/media/news-releases/2016/12/ieso-announces-results-of-demand-response-auction

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- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[5].

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. What is the history of ICI and what benefits does it provide to the electricity system?

The Industrial Conservation Initiative (ICI) is an electricity demand response program and cost allocation mechanism that was implemented in 2011 following consultation with industry partners and the public.

Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Similarly, consumers who are contributing the least to peak electricity demand pay a smaller portion of these costs.

It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

Initially, this program was available to consumers with peak demand above five megawatts. Since 2011, the program has been expanded three times:

- Effective July 2015, extended to consumers operating in select electricity-intensive sectors with average monthly peak demand greater than 3 megawatts.

- Effective July 2017, extended to all consumers with average monthly peak demand greater than 1 megawatt.

- Effective July 2017, extended to manufacturers and greenhouses with average monthly peak demand greater than 500 kilowatts.

In addition to the cost savings for participating businesses and organizations –a 1/3 cut in their electricity costs on average – the program provides a number of system benefits.

First, the ICI benefits electricity consumers by reducing demand at peak levels, helping to delay the need for more electricity generation in the long-term.

Second, it better aligns consumer costs with their contribution to those costs. Under the program, consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs. This is fair because they are contributing to the incurrence of electricity system costs associated with higher peak demand.

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Lastly, ICI allows participants to reduce electricity costs by one third on average, helping to keep our large electricity consumers in the province – these consumers continue to contribute towards fixed electricity system costs, such as the capital costs of new generation that would otherwise be the responsibility of remaining consumers.

We have partnered with the Ontario Chamber of Commerce (OCC) and Canadian Manufacturers and Exporters (CME) to ensure that all Ontario businesses are aware of the benefits of this program.

Q. How does the Ministry of Energy monitor the Industrial Conservation Initiative (ICI)?

The Ministry of Energy collects information and data on the Industrial Conservation Initiative (ICI) primarily from our system operator and Local Distribution Companies (LDCs).

Information related to Global Adjustment (GA) and the allocation of costs and consumption for each class of electricity consumer is published by the Independent Electricity System Operator (IESO) IESO on a monthly basis.

- Specifically, the information published includes total GA, GA allocated to Class A and Class B, and demand allocated to Class A and Class B[6].

The Ministry also receives information from IESO and LDCs regarding the number of ICI participants.

Since ICI is a form of demand response (i.e., allows participating customers to manage their GA costs by reducing demand during peak periods), IESO also reports on the peak reduction associated with ICI. In 2016, ICI is estimated to have reduced peak demand by 1,300 MW[7]. This estimate is reported in number of publications, including IESO's ICI Backgrounder and the 18-Month Outlook.

The Ministry continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Q. Do you think the cost shift to non-ICI participants is in reasonable? What is actual cost shift?

Industrial Conservation Initiative (ICI) is about fairness for electricity consumers – large and small. Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In addition, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term and reduces costs for all ratepayers across the province: residential, commercial and industrial.

[6] http://www.ieso.ca/en/sector-participants/settlements/global-adjustment-components-and-costs
[7] http://www.ieso.ca/-/media/files/ieso/document-library/global-adjustment/ici-backgrounder.pdf?la=en

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By keeping peak system demand low, we are making the system more cost-effective for all ratepayers into the future. Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

If pressed on the amount of the cost shift:

For the 2017 calendar year, Global Adjustment (GA) charges paid by Class A electricity consumers were about $1.2 billion lower than they would have been if the program was not in place (i.e., GA was charged volumetrically for all consumers).

In the report, the AG noted the Market Surveillance Panel's (MSP) estimate that GA for Class A was reduced by almost $245 million in the first 10 months of the program (i.e., in 2011). The AG also notes that, given the expansions of the program that this amount has increased.

~~Additional Legislative Power~~Roles and ~~l~~Legislative ~~p~~Powers ~~for~~ of OEB, IESO, MSP and MACD

Q. What are the powers of the Ontario Energy Board (OEB) and the Independent Electricity Operator (IESO) in the market rule review and amendment process under the Electricity Act, 1998?

Under the Electricity Act, 1998, the Ontario Energy Board (OEB) has certain oversight powers with respect to the introduction of new market rules and the review and amendment of existing rules, including the power to revoke an amendment and refer it back to the Independent Electricity System Operator (IESO) for further consideration.

The OEB may also review and order an amendment to the market rules where the Market Surveillance Panel (MSP) reports on instances of market power abuse.

Under the Electricity Act, 1998, IESO has the authority to make and amend the rules, including rules that govern the making and publication of the rules themselves.

We welcome the AG's recommendations regarding the authority of the OEB in the market rule review and amendment process under the legislation. The need for legislative change to clarify the authority of OEB regarding the market rules is under review.

Q. Why didn't the Ministry respond to the recommendations of the Market Surveillance Panel (MSP)?

We are confident in the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO), both of whom play vital roles in ensuring an efficient, fair and reliable electricity market for ratepayers across the province.

The Ministry of Energy is committed to effective and strong electricity market oversight in Ontario.

The Ministry is briefed on all Market Surveillance (MSP) reports, including monitoring and investigations. The Ministry discusses the recommendations and status of actions taken to address them with IESO.

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IESO has made numerous revisions to the market rules in response to MSP recommendations, and continues to work to analyze and assess the recommendations and consider possible amendments to market rules, while balancing the need to ensure electricity system reliability and consider any unintended adverse effects.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Do you have the authority to direct IESO to investigate a market participant?

In accordance with the requirement for independence in the investigation process, the Ministry of Energy does not have the specific authority to direct investigations undertaken by the Independent Electricity System Operator (IESO) or Market Assessment and Compliance Division (MACD). Note: Per email from IESO on December 6, 2017 regarding its enforcement authorities.

Market oversight in Ontario is undertaken by three independent bodies:

- Ontario Energy Board (OEB);
- OEB's Market Surveillance Panel (MSP); and
- IESO's Market Assessment and Compliance Division (MACD).

Each plays a vital role in ensuring an efficient, fair and reliable electricity market for ratepayers across the province:

- OEB is the independent regulator for the energy sector with a mandate to protect the interests of consumers and provide advice to the government. The Minister of Energy has the general authority to direct OEB to review the market rules or market participant licenses in order to address possible abuse of market power.
- OEB's MSP monitors, investigates and reports on activities and behaviour in IESO-administered markets, including how well the market is functioning.
- MACD, an independent branch within IESO, works to foster compliance with the market rules, monitors the markets for anomalous or inappropriate behaviour by market participants, ~~and~~ is authorized under the market rules to request further information from market participants~~,~~ and impose~~s~~ sanctions (i.e., financial penalties) for failure to comply with the market rules. MACD staff also support MSP in its analysis and investigations.

We are confident in the ability of OEB, MSP and MACD to ensure a fair, efficient and reliable electricity market and remain committed to working collaboratively to ensure effective and strong electricity market oversight in Ontario.

The Ministry is continuing to work closely with IESO and the Ontario Energy Board (OEB) to ensure effective and strong market oversight mechanisms, including reviewing the market rule

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amendment process and ensuring that any issues raised by MSP are effectively addressed in a timely fashion.

Q. Based on the AG's recommendations is the Ministry of Energy planning to provide OEB or MACD with additional powers?

We welcome and appreciate the recommendations of the Auditor General and agree with the need for effective and strong electricity market oversight in Ontario.

To that end, we are working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) to ensure effective market oversight mechanisms, including:

- Reviewing the investigatory powers of MSP and IESO's Market Assessment and Compliance Division (MACD), including the potential need for additional legislative authority for MACD to compel evidence; and

- and Reviewing tthe role and authority of OEB to initiate review of a market rule and considering the need for additional legislative authority to ensure potentialany abuse of the market rules is adequately addressed. in the market rule amendment process, particularly in instances of potential abuse of the market rules.

To ensure effective and strong electricity market oversight in Ontario, the potential need for additional legislative authorities for the OEB, MSP and MACD is under review as highlighted isn our written correspondence to the Standing Committee on Public Account on February 21, 2018.

This year, Ontario is undertaking a review of OEB to build on its mandate and prepare for the future of the electricity sector. Market oversight is an important factor as modernization of OEB progresses.

The Ministry plans to meet with the OEB modernization panel to discuss these issues later this month.

Q. Did IESO investigate whether Ontario Power Generation (OPG) acted an inappropriate manner with respect to the electricity market? What was the penalty assessed to OPG for its conduct?

Late last year, Ontario Power Generation (OPG) acknowledged that it was one of the companies that had been investigated by the Independent Electricity System Operator (IESO).

IESO advises that OPG has settled the matter. Note: The terms of the settlement are confidential.

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NOTE – THESE ARE Q&AS RELATE TO IESO ISSUES. THESE WERE PREPARED IN ADVANCE OF THE RELEASE OF THE AG's 2017 ANNUAL REPORT. THESE HAVE BEEN UPDATED AS NECESSARY.

Real-Time Generation Cost Guarantee (RT-GCG)

Legend:

- IESO's Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)
- IESO's Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

Q. There are a lot of different numbers floating around in this report. Can you clarify what the total cost is of the Real-Time Generation Cost Guarantee Program? What is the total cost of the Congestion Management Settlement Credits?

Note: *The OAG's report states that about* ***$1.6 billion*** *of Congestion Management Settlement Credits (CMSC) have been paid since 2002.*

Payments made through these credits ensure reliability for our electricity system.

They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss. Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability:

- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go;
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system; and
- These credits are needed to maintain the reliability of Ontario's electricity system.

Note: *The OAG's report claims that as much as* ***$260 million*** *in ineligible costs were paid under the Real-Time Generation Cost Guarantee (RT-GCG) program between 2006 and 2015.*

Two thirds **($168 million)** of ineligible costs from this program have been returned to ratepayers.

The system operator's auditors make sure that the costs returned to ratepayers outweigh any kind of legal risk that might exist by taking matters to the courts.

The system operator has an active compliance division and a new CEO that is going to ensure they have the resources they need.

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Note: *The OAG's report also claims that* ***$30 million*** *in additional costs is spent per year on the RT-GCG program despite the MSP recommending IESO scale back the program*.

According to IESO, the Panel's recommendations, which would significantly reduce the incentive structure under the program, would have negative impacts on the reliability of our electricity system and put our obligation to meet North American reliability standards at risk – not only jeopardizing the reliability of Ontario's grid, but those of our neighbours as well.

The electricity from some gas-fired units might not be offered into the market in real time, which would, in turn, impact the reliability of our electricity system, potentially impairing the system operator's ability to address changing conditions through the day.

As a result of this change and other improvements, this program is more efficient today – with the total cost dropping from $61 million in 2014 to $23 million in 2016 and $22 million in 2017 – a more than 60 per cent cut in program costs over the course of two years.

Q. Why is IESO not able to recoup 100 per cent of the ineligible costs that have paid to private power generators? Doesn't this just encourage further 'gaming' within the electricity system?

To ensure ratepayers are protected and cost recovery is maximized, our system operator negotiated settlements with generators where it made sense – avoiding costly litigation.

Priority is placed on ratepayer protection, and ensuring that recouped costs go back to Ontario's electricity consumers.

Q. What is the total amount of ineligible costs that private power generators have received from the Independent Electricity System Operation (IESO) since the electricity market opened in 2002? At what point does IESO give up on recouping the full cost lost to ratepayers?

There are strong measures in place under Ontario's electricity market rules that allow the system operator to identify and take action on false claims under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG).

Our system operator has the authority to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total RT-GCG claims.

Our system operator is now working on additional resources to strengthen their oversight division.

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Q. Why has the Independent Electricity System Operator (IESO) repeatedly failed to make changes or cancel both the Real-Time Generation Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) as recommended by the Ontario Energy Board's Market Surveillance Panel (MSP)?

According to the Board's Market Surveillance Panel (MSP), many of the issues associated with ~~these~~ CMSC credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.

Our system operator has made a number of changes since market opening that have improved program effectiveness and transparency.

According to IESO, both programs are required to ensure Ontario families and businesses have an electricity system they can count on every second of every day and that we continue to meet North American reliability standards.

Our system operator has the power to conduct audits of claims made by generators and other market participants.

And, if needed, our system operator can impose fines and seek the recovery of amounts that were incorrectly claimed.

Our system operator has made more than a dozen market rule changes since 2002 to make CMSC payments more efficient and transparent.

Q. The OAG reports that in almost all of the OEB Panel's reports – 28 since 2002 – that the Panel has recommended changes to the Real-Time Generation Cost Guarantee (RT-GCG) program. Why do these programs continue to exist after alarm bells have been going off for years from your own Panel?

~~According to the Board's Market Surveillance Panel (MSP), many of the issues associated with these credits have been brought to an end, as a result of the Panel having identified them, and our system operator acting to improve the program's effectiveness and transparency.~~

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

At times, our system operator has had concerns that the Panel's recommendations would significantly reduce the incentive structure under this program, leading to negative impacts on the reliability of Ontario's electricity system.

Our system operator has taken a number of actions to improve the RT-GCG program, resulting in a significant reduction in the annual cost of the program compared to 2014.

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Q. As the province's independent agency responsible for protecting ratepayers, why has the OEB not forced IESO to make changes or cancel these programs?

Our system operator and the Ontario Energy Board's Market Surveillance Panel (MSP) have a shared responsibility to monitor behaviour in the province's electricity market.

According to the MSP, many of the issues associated with these credits have been brought to an end, as a result of the MSP having identified them, and our system operator acting to improve the program's effectiveness and transparency.

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the MSP's ability to provide independent monitoring and investigations. Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the OEB's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

To ensure that our system operator can effectively conduct its investigations, we are working together regarding the potential need for additional legislative power to assist our system operator in performing its critical responsibilities.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. Why did we start reimbursing generators for maintenance costs? Why has this continued despite the alarm bells? What benefit does this provide to the system when it clearly causes so many problems?

As part of the phase out of coal, our supply mix changed to include more gas-fired generation.

Because of this transition, our system operator launched improvements to the program (i.e., Real-Time Generation Cost Guarantee (RT-GCG)) to ensure continued reliability.

These improvements included:

- Guaranteeing certain start-up operating and maintenance costs;
- Tightening program eligibility criteria; and
- Putting in place restrictions on eligible fuel costs.

These were aimed at improving the overall efficiency of the program and ensuring we continued to have an electricity system that families and businesses could count on.

The Panel's recommendation to eliminate guarantees under this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) for operating and maintenance costs is based on earlier versions of this program where eligible payments were limited to fuel-only costs.

As our generation supply mix has become cleaner, the program has been adjusted accordingly.

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Q. Can you name any other programs or jurisdictions that allow expenses to be reimbursed/paid before they're reviewed and approved? Why is this the way it works with these programs?

All but one of the nine system operators in North America also commit generators and compensate them for starting up.

Cost submissions by electricity generators through this program (i.e., Real-Time Generation Cost Guarantee (RT-GCG) and related payments happen in a timeframe very close to the ongoing financial settlement of the ~$20 billion electricity market.

As a result, generator costs were only able to be audited after payment. This is similar to a Canada Revenue Agency income tax process whereby submissions are presumed to be correct until such time as audits and evaluations take place.

There are processes in place under our system operator's market rules to identify and manage false claims under this program. Our system operator has the power to conduct audits of claims made by generators and other market participants.

Q. These investigations have shown up a huge range of claimed but ineligible costs, including $175,000 for parkas and coveralls, the costs of staff car washes, carpet cleaning, road repairs, landscaping, scuba gear and raccoon traps. Do you consider it appropriate that Ontario ratepayers are picking up the tab for these?

Those costs were clearly unacceptable and our system operator has taken appropriate steps to recover these payments.

The ineligible costs mentioned in the Auditor General's Report were identified by our system operator as part of the audit process that is in place.

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

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Q. With this outrageous amount of ineligible costs being paid out of the pockets of Ontario ratepayers, how can families and businesses be confident with IESO's oversight of the electricity market?

Our system operator continues to take strong action when power producers claim ineligible costs – it investigates and imposes fines, recovers ineligible claims and returns these funds to Ontario ratepayers.

In the case of Goreway – a $10 million fine was imposed and a substantial portion of payments were recovered from the generator's total Real-Time Generation Cost Guarantee (RT-GCG) claims.

Our system operator has taken action to address issues raised by the Ontario Energy Board's Market Surveillance Panel.

Our system operator has taken a number of actions to improve the RT-GCG program and implemented market rule changes that address the issues and recommendations highlighted by the Panel.

Q. The AG's report mentions that the MSP has been "concerned" about payments of $500 million paid to market participants in Northwestern Ontario. Can you explain these payments?

Congestion Management Settlement Credits (CMSC) are paid mainly to generators when they are instructed by our system operator to produce power that would result in them being hit with a financial loss.

These payments are generally the result of system constraints, such as transmission line limits, that lower the ability of power to flow in or out of a particular area of the province.

The Ontario Energy Board's Market Surveillance Panel recognized that the payments in the northwest were due to hydroelectric generation supply in this part of the province and the limited ability to transfer excess power out of the northwest due to congestion on transmission lines.

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

These payments are necessary to ensure our province's generators can comply with our system operator's instructions for when, where and how much electricity is needed to keep the lights on for families and businesses.

Our system operator is working to transform our electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

It is projected that Market Renewal will save up to $5.2 billion over 10 years.
Once launched, Market Renewal will replace the Real-Time Generation Cost Guarantee (RT-GCG) program and Congestion Management Settlement Credits (CMSC).

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Q. With both the design of the Market Renewal Initiative and with previous changes to the Real-Time Generation Guarantee Program and Congestion Management Settlement Credits being overseen by the same market participants that have claimed ineligible expenses, aren't you just letting the fox guard the henhouse?

The resignations of the co-chairs of the Market Renewal Working Group were effective December 1, 2017.

As we head into the next phase, our system operator will also be adding an independent fairness commissioner to oversee the work of this group. The Market Renewal Working Group includes a diverse group of participants from consumers to generators.

It's important that our system operator hears from a wide array of perspectives to ensure the transformation of our electricity system is done right.

The Market Renewal Working Group includes participants that advocate for low-volume consumers, including Weir Foulds.

All Market Renewal sessions are fully transparent, and open to the public.
Stakeholders in Ontario's electricity sector have the opportunity to participate in our system operator's stakeholder engagement process for Market Renewal.

Through this process, our system operator is working to transform the province's electricity market.

The Market Renewal initiative is expected to result in a more competitive marketplace that meets our system's needs while increasing flexibility and efficiencies.

This transformation is expected to save up to $5.2 billion between 2021 and 2030 and forms a key component of the government's plan to bring down the cost of electricity for families and businesses

Our system operator will make the final decisions regarding the design of a transformed electricity system, with oversight provided by the independent Ontario Energy Board (OEB).

Q. The AG finds that IESO Oversight Division's investigative powers lack teeth and it can only receive information from *willing* market participants to support investigations. This means there is no way to uncover the extent of violations. Are you concerned with the Division's lack of powers to fulfill its role adequately?

We are confident in our system operator's ability to administer an efficient and fair electricity market, as well as the Panel's ability to provide independent monitoring and investigations.

Our system operator is actively working to strengthen the Market Assessment and Compliance Division (MACD).

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

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- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With Ontario's surplus of electricity supply, why is the Real-Time Generation Cost Guarantee Program even needed? Aren't you just paying generators to 'standby' for electricity that's won't be required?

According to IESO, this program makes sure that adequate electricity will be available to meet the expected electricity demand– an important factor in meeting North American reliability standards.

The Real-Time Generation Cost Guarantee (RT-GCG) program plays a key role in ensuring reliability by providing generators – our natural gas plants, our hydroelectric dams – with an incentive to offer flexible electricity supply.

This program guarantees the recovery of certain costs incurred whenever an eligible electricity generation facility starts up and is brought up to the minimum level of electricity output that it can reliably supply into our grid.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations are being completed into improper costs being claimed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

Working with the Ontario Energy Board (OEB) and our system operator, we are undertaking a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market.

These changes are being made through IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market.

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The Ontario Energy Board's Market Surveillance Panel is supportive and is participating in the initiative to help inform its efficient design and implementation.
The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by Ontario ratepayers.

These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the RT-GCG program will end. Generators' start-up costs will still need to be compensated, but it will be more transparent, competitive and efficient as they will be included in the offers they submit into the market.
The IESO is currently working with a wide range of stakeholders on a high level design for the Market Renewal Program and will begin the detailed design and implementation phase in 2019.

Q. You talk about Market Renewal as though it will solve all the problems flagged by the Auditor, but isn't market renewal years away from taking effect?

These programs have been constantly evolving with improvements to transparency and effectiveness through changes initiated by our system operator.

Market Renewal is expected to save up to $5.2 billion between 2021 and 2030, and forms a key component of the government's plan to bring down the cost of electricity for all consumers.

Our system operator is taking the time to work with experts and sector partners to maximize the efficiencies that can help bring down costs – this will be the most fundamental redesign of the electricity system since the market opened in 2002 and it cannot be rushed.

Once launched, our transformed electricity marketplace will significantly restrict gaming opportunities and reduce the need for payments and credits through these programs.

In the meantime, we are working with the Ontario Energy Board and our system operator, to undertake a review of the Electricity Act (1998) – focusing on how market rules are approved.

We are also undertaking a review of the Ontario Energy Board's authority regarding the enforcement of electricity market rules and the response to abuses of these rules.

We are considering the potential need for additional legislative powers to assist our system operator in performing its critical responsibilities, including its investigations.

- Powers that could include compelling documentation from market participants related to their behaviour in the electricity market.

Q. What is the Real-Time Generator Cost Guarantee (RT-GCG) program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand and operating reserve requirements on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

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The Information Electricity System Operator (IESO) is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

If pressed, additional background information:

The IESO-administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes. The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The RT-GCG addresses this by covering certain costs should market revenues fall short. Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

The IESO introduced the Spare Generation On-Line (SGOL) program in 2003, now called the Real-Time Generation Cost Guarantee (RT-GCG) program.

Q. Why hasn't the IESO eliminated the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards. The RT-GCG program does this by guaranteeing certain start-up costs to participants who otherwise might not commit their units if they were not certain they would be able to recover these costs.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment.

Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

The IESO will continue to engage with the Market Surveillance Panel (MSP) throughout this process.

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Q. What improvements have been made to the RT-GCG program?

Over the years a number of changes have been made to the Real-Time Generation Cost Guarantee (RT-GCG) program, including changes to eligibility and cost submissions.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Furthermore, the Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current RT-GCG program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. What is a timeline of events for changes made to the RT-GCG program?

The Real-Time Generation Cost Guarantee (RT-GCG) program chronology includes:

- 2003: the RT-GCG program is created, then known as the Spare Generation Online Program
- 2009: More stringent eligibility requirements introduced to the RT-GCG
- 2011: The IESO commences audits of the RT-GCG program
- 2012: Revisions to eligibility and cost submissions
- 2013: The IESO completes onsite work for most audits and compiles preliminary findings
- 2014: The IESO commences settlement negotiations with a range of program participants
- 2014:The IESO issues “Interpretation Bulletin” to clarify eligible costs
- 2016: RT-GCG program costs are $23 million compared with $61 million in 2014
- 2017: New cost recovery framework is created where 14 of 15 cost components are pre-approved
- 2017: RT-GCG program costs are $22 million compared with $61 million in 2014

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Q. The Market Surveillance Panel (MSP) states the Independent Electricity System Operator (IESO) does not need to reimburse generators for operating and maintenance costs through the RT-GCG program. Why does IESO think otherwise?

Substantially reducing generator incentives, as recommended by the MSP, could result in insufficient generation being available to reliably meet electricity demand. This would negatively impact reliability and impair IESO's ability to meet continent-wide planning requirements. Therefore, IESO will continue to allow the recovery of operating and maintenance costs. However, the IESO is currently working with stakeholders to design and implement fundamental and enduring changes to Ontario's electricity market that will address the report's findings by introducing a more efficient real-time commitment program.

When the Real-Time Generation Cost Guarantee (RT-GCG) program was first introduced, 80 per cent of the starts under the program were for coal-fired units. By 2009, coal-fired generation was being replaced by natural gas-fired generation, which has different operating characteristics and incurs more costs when starting up compared to coal-fired generation.

As IESO began to rely less on coal-fired generation, there became an increasing need to make changes to the program parameters and incentives to ensure that resources were available when needed.

In 2009, IESO addressed this need by introducing more stringent eligibility criteria to make better use of existing assets while allowing the recovery of incremental operating and maintenance costs to ensure that resources still were incented sufficiently and that the program continued to meet its reliability objectives.

Q. Is it true that there have been $260 million in overpayments through the Real-Time Generation Cost Guarantee (RT-GCG) program?

The Independent Electricity System Operator (IESO) provided the Office of the Auditor General with the $260 million figure, but noted that it was an extreme and unlikely figure – the highest possible in a range.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 per cent of, or $168 million.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

Q. Why is there a difference between the AG's number and IESO's? Why is there a $60-million gap between the two?

It is IESO's position that the $260 million figure is not an accurate representation of the total amount of ineligible costs. This number was provided to the AG as a partial and initial estimate, but also as a maximum and unlikely figure – the highest possible in a range.

The IESO's Market Assessment and Compliance Division (MACD) advised AG staff that the total ineligible costs as determined by an independent adjudicator would likely be significantly less.

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The final total of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

The IESO's estimate of ineligible costs is closer to $200 million over a 10-year period, of which we've recovered approximately 85 percent of or $168 million.

Q. Why is it a range? You don't know for certain how much you overpaid?

That number is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Why were overpayments allowed to happen?

Cost submissions and payments were made in close proximity and audited after-the-fact. This is similar to how the CRA income tax process works whereby submissions are presumed to be correct until such time as audits and evaluations take place by CRA audit staff.

However, changes to the program in 2009 resulted in unexpected requests for cost recovery. The IESO quickly sought to address ineligible cost submissions and use its authority to recover as many costs as possible.

Two-thirds of these ineligible costs were submitted by one generator, who was fined an additional $10 million for failing to provide true, correct and complete information to the best of its knowledge.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

Q. Has IESO recovered all the money overpaid through the RT-GCG program? Why not?

The number of ineligible costs is highly dependent on a range of variables including debates related to accounting treatments of costs and legal arguments around rule interpretations.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why hasn't IESO provided data to the Market Place Surveillance Panel (MSP) to support its claims about Real-Time Generation Cost Guarantee (RT-GCG)?

On April 5, 2018, the Independent Electricity System Operator (IESO) will present to the MSP a detailed analysis supporting the rationale for its previous assertions that a real-time generator commitment mechanism (currently the RT-GCG program) is necessary to allow IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.

The IESO and MSP agree that there is a need to manage changing system conditions between day-ahead commitments and real time. The IESO meets this need through the RT-GCG program and will continue to do so until broader, more fundamental and enduring changes can be made that will address the report's findings.

The IESO has provided its rationale for the continued need for RT-GCG, explaining that a mechanism to ensure resource availability to meet the change in demand between day-ahead commitments and real time is both necessary and consistent with industry practice. The IESO also provided an assessment of the need for the GCG program through a public stakeholder engagement exercise that reviewed generation guarantee programs.

Q. Did IESO recover the money spent on car washes, carpet cleaning, road repairs, landscaping, scrub gear, raccoon traps, coveralls and parkas?

Yes – these costs were identified by the Independent Electricity System Operator (IESO) audits and recovered.

Q. How do generators submit costs to the RT-GCG program?

During the time period covered by IESO's audits, program participants submitted aggregated cost amounts for fuel and operating & maintenance (O&M) cost(s) in relation to Real-Time Generation Cost Guarantee (RT-GCG) program starts. The IESO reimbursed participants for those costs, subject to being audited and trued-up later on.

The IESO also recently implemented a new cost recovery framework in which IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Fuel and O&M costs are now broken down into 15 distinct and clearly defined cost components that are eligible for recovery.

Q. Why didn't IESO review costs initially before paying them?

Some changes to the Real-Time Generation Cost Guarantee (RT-GCG) program in 2009 resulted in unexpected requests for cost recovery. This was when we exercised our authority to audit submissions and create a public stakeholder engagement to review the program.

The IESO has since implemented a new cost recovery framework in which IESO pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

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Q. Why didn't you audit the Real-Time Generation Cost Guarantee (RT-GCG) program until 2011?

Participation in the RT-GCG program increased considerably in the late 2000s as more natural gas generators were brought online to help support the reliable operation of the electricity system.

The IESO's MACD monitoring team highlighted an increase in RT-GCG payments in 2009 and provided this information to the MSP, after which the MSP reported on this trend. The MACD enforcement section at the same time initiated an audit program of all participants and concluded that overpayments were made to several participants of the RT-GCG program.

The majority of the estimated overpayments were attributed to one participant.

Q. How did the Independent Electricity System Operator (IESO) discover the overpayments?

Staff of IESO's Market Assessment and Compliance Division (MACD) monitors the market as part of its appointed role assessing market performance. It provides its findings to the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP), with which MACD closely works. MACD may direct that enforcement actions, such as audits, be conducted. MACD has special divisions that conduct investigations and audits, again similar to what CRA does with respect to income tax submissions.
The MACD monitoring team highlighted an increase in Real-Time Generation Cost Guarantee (RT-GCG) payments in 2009, after which the MSP reported on this trend. The MACD then initiated an audit and discovered the overpayments of the RT-GCG program.

Q. How will the Independent Electricity System Operator (IESO) prevent participants from submitting inaccurate costs in the Real-Time Generation Cost Guarantee (RT-GCG) program going forward?

The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. This new cost recovery framework was implemented on August 1, 2017.

The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

Q. Are the RT-GCG audits finished?

Audits occur on an ongoing basis. However, under a new cost recovery framework implemented on August 1, 2017, eligible costs are now set and approved in advance of participating in the program for each program participant. This change removed the potential for overpayments and the need for after-the-fact audits for these components.

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Q. What is the one cost component that is still subject to audit?

The only value that is not pre-approved is the quantity of natural gas, or other fuel, consumed during the eligible period. This value is highly variable with each start and is therefore not appropriate for establishing a pre-approved value. The price of the gas, or other fuel, is a pre-approved value. All costs are what the Independent Electricity System Operator (IESO) believes to be reasonable and eligible for recovery.

Q. Who are the market participants who submitted ineligible costs?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Furthermore, releasing the names of these market participants would violate our settlement agreements and market rules.

Q. Is it true that generators who received RT-GCG payments were called on only one percent of the time? Is it true that the reliability benefits of the GCG program are not commensurate with the cost?

The Real-Time Generation Cost Guarantee (RT-GCG) program acts as insurance by ensuring sufficient generation is available to balance supply and demand as conditions change closer to real time and is a key component of meeting mandatory continent-wide operation planning standards. Like insurance, the value is in the ability to manage the risk of events that don't happen frequently but can have serious consequences when they do. As such, usage of the RT-GCG program in past years is not an indication of its value.

As the Market Surveillance Panel (MSP) report acknowledges, the Independent Electricity System Operator (IESO) has to manage changing conditions between day-ahead commitments and real time. The RT-GCG program meets this need.

Eliminating the RT-GCG program could result in insufficient generation being available to reliably meet Ontario electricity demand. This would negatively impact reliability and impair the IESO's ability to meet continent-wide planning requirements.

Q. Do other jurisdictions have a Real-Time Generator Cost Guarantee (RT-GCG) program?

Every North American jurisdiction has a need to ensure sufficient generation is available to balance supply and demand as conditions change closer to real time and to meet mandatory continent-wide standards for operation planning. This need is met differently across jurisdictions.

The Independent Electricity System Operator (IESO) currently meets this need partly through the Real-Time Generation Cost Guarantee (RT-GCG) program and is also working with stakeholders through the Market Renewal initiative to design and implement changes to Ontario's electricity market that will create efficiencies in how this need is met.

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Congestion Management Settlement Credits

Q. What are Congestion Management Settlement Credits (CMSC), referred to in the report as the Lost Profit Recovery Program?

Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

For example, if a generator submitted an offer to produce power at a cost that was above the market clearing price, it would typically not be scheduled to produce power. However, if transmission limits in another area prevented a lesser-cost generator from delivering energy, the higher-cost generator may be told it must produce to maintain local reliability. In this example, a CMSC payment would make up the difference between the market clearing price and the price at which the generator had originally offered its power.

The payment ensures the generator complies with IESO instruction and produces the power needed to maintain reliability by giving it the revenue it had originally said it required to produce.

Q. Why doesn't the IESO eliminate Congestion Management Settlement Credits (CMSC)?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch instructions if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards. Until fundamental changes can be made to the electricity market, RT-GCG and CMSC will continue to be needed.

Fundamental changes to Ontario's electricity market are being made through a Market Renewal Program. The Market Renewal Program will provide an enduring solution to the inefficiencies discussed in the AG's report as well as deliver a range of efficiency savings, from better scheduling and dispatching resources to more efficiently procuring the capacity Ontario needs. In total, Market Renewal will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

Q. When will Market Renewal replace CMSC and RT-GCG?

Work is underway and we expect to begin the detailed market design and implementation phase in 2019. Changes to the foundation of the electricity market take time. We want to make sure we get it right and don't put in place another band-aid solution with continuing inefficiencies at the expense of ratepayers.

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Q. What steps has the IESO taken to address inefficiencies with CMSC?

The Independent Electricity System Operations (IESO) has made more than a dozen changes to market rules since market opening that improved program effectiveness and transparency, increased efficiency of Congestion Management Settlement Credits (CMSC), and reduced costs – many of these changes are responsive to Market Surveillance Panel (MSP) recommendations.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing through Market Renewal.

Changes over the years have eliminated inappropriate CMSC payments resulting from:

- Artificially raising or lowering offers into the market, when the participant is expecting to be constrained-on or off (2004, 2005, 2006, 2010);
- Offering into the market over interties to maximize CMSC or with limited intention of having to deliver power (2006, 2011, 2012, 2015);
- Safety, environmental or legal reasons that result in a facility unable to follow dispatch (2003, 2011); and
- Units that are slow to come offline when no longer economic (2010, 2015).

Going forward, the Single Schedule Market initiative of Market Renewal will eliminate the CMSC Program. Final decisions and high level design are expected by Q3 2018; implementation of initiative is expected in 2020.

Q. Why has the Independent Electricity System Operator (IESO) paid about $1.6 billion for Congestion Management Settlement Credits (CMSC) – aren't these wasted costs?

These payments have not resulted in <u>additional</u> costs to consumers.

These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

As the Market Surveillance Panel (MSP) has acknowledged, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

As part of Market Renewal, IESO is working to make sure that the market is more efficient so that these costs are as low. Market Renewal will result in a better market design that will

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schedule resources more efficiently and the opportunity for inappropriate out of market payments is largely eliminated.

However, many of the existing CMSC costs are legitimate operating costs that will still be paid by consumers and are necessary to maintain reliability (i.e., generator start-up costs will be reflected in offer and bid prices and recovered from consumers through the market clearing price).

Q. Why has it taken so long to begin fixing market inefficiencies? Wasn't CMSC supposed to be temporary?

Adopting the current structure at market opening in 2002 was a deliberate decision to "simplify" the transition from the wholly regulated system. The two-schedule system allowed for a smooth transition to an open market. IESO has since made over a dozen changes to Congestion Management Settlement Credits (CMSC) that have made it more efficient.

There have been many significant developments in electricity system over the past decade, including the phase out of coal-fired generation and replacement with renewable, natural gas-fired, nuclear and demand response resources. Now we're in a stable supply situation that is expected to continue into the 2020s, making now an opportune time to pursue more fundamental changes to the electricity market that will make sure these costs are reflected in the market price instead of through less efficient out-of-market payments.

Q. Is it true that Ontario ratepayers have paid $1.6 billion in CMSC costs since market opening?

Congestion Management Settlement Credits (CMSC) payments are necessary to incentivize resources to comply with the Independent Electricity System Operator (IESO) dispatch. These are generally costs associated with ensuring the reliability of Ontario's electricity system, but not reflected with the energy market clearing prices.

According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

As stated by the Market Surveillance Panel (MSP), some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design. These are costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

The IESO has taken numerous steps over the years to improve the efficiency of CMSC and limit gaming opportunities. Remaining inefficiencies are best addressed by the broad and fundamental market design changes the IESO is pursuing, which will see CMSC costs reflected in the market price instead of through out-of-market payments.

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Other

Q. Why are market participants who have misused IESO programs allowed to participate in the market renewal working group?

The Independent Electricity System Operator (IESO) accepts feedback from a broad range of stakeholders, including residential consumers, industrial consumers, distributors, transmitters, generators, and other market participants. But at the end of the day, the final decision is made by us.

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members is still on the group but not as a chair.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been recently added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are generators allowed to have so much influence in changing market rules?

A Technical Panel advises about market rule changes and includes representation from residential consumers, industrial consumers, distributors, wholesalers, transmitters, generators and other market participants. So we look for input from a wide variety of stakeholders. But at the end of the day, the final decision is made by the IESO Board of Directors.

Q. But will you remove those who misused the Independent Electricity System Operator (IESO) programs from the market renewal working group?

Two market participants who were found to have ineligible costs have stepped down as Chairs from the market renewal working group. One of these members continues to serve on the group but not as a chairperson.

The IESO will continue to evaluate the membership and structure of the group. For example, a new low-volume customer representative has been added.

It is also worth noting that the working group also includes a member from the OEB's Market Surveillance Panel (MSP).

Q. Why are low volume consumers not better represented?

The Independent Electricity System Operator (IESO) recently announced the appointment of a low-volume consumer representative on IESO's market renewal working group to ensure that perspective was being captured.

There currently is representation for residential consumers on IESO's Technical Panel and there are multiple consumer representatives on its Stakeholder Advisory Committee, two key vehicles for receiving input into IESO market rules and its decision-making.

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The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. According to IESO, the engagement strategy will continue to be aligned with IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Q. What is Market Renewal?

Market Renewal is a collaborative effort between the Independent Electricity System Operator (IESO) and stakeholders to pursue enhancements to Ontario's electricity market that will address inefficiencies, put downward pressure on electricity costs and lay a foundation that will prepare us to meet future electricity needs as the sector evolves.

Market Renewal will incorporate lessons learned in Ontario and best practices from other jurisdictions to achieve a "made-in-Ontario" market design tailored to our province's needs. The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers.

This will include replacing the RT-GCG program with a more efficient and transparent mechanism and eliminating CMSC.

Q. Is the IESO doing anything to ensure that the Market Renewal Initiative considers and protects all ratepayers' interests?

The initial findings from the Market Renewal benefits case show potential for cost savings that will be realized by both consumers and suppliers. Cost savings are achieved through the better utilization of existing assets, greater competition among resources, a reduced need to build new resources and a more flexible procurement process that will better reflect system needs.

The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants – generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public.

One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage.

The IESO recently undertook five regional forums across the province, to address the concerns and seek input on developing solutions to improve our system locally and province-wide. These forums provided the opportunity to meet face to face and seek input from municipalities, consumers, First Nations and Metis peoples, as well as the general public.

The IESO is undertaking a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q2/Q3 2018. The

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engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

If pressed additional background:

Ontario's electricity market was designed in the late 1990s and introduced in 2002, when the electricity landscape looked very different from today. The elimination of coal, integration of renewables, increase in distributed resources, and growing role of the consumer has dramatically changed the dynamics of Ontario's electricity system.

Inefficiencies have been identified over the years through the work of the Electricity Market Forum, the Market Surveillance Panel (MSP), IESO studies and stakeholder input. The IESO and its stakeholders have worked together to improve different aspects of the market, but more fundamental changes are required to address remaining inefficiencies.

Ontario is now in a stable supply situation that is expected to continue until the mid-2020s, making this an opportune time to consider and implement needed market design changes.

Q. What is the Market Assessment and Compliance Division (MACD)?

IESO's Market Assessment and Compliance Division (MACD) monitors the operation of Ontario's electricity market, fostering compliance with the Ontario market rules and North American reliability standards.

MACD does this through its prevention, monitoring, auditing, investigations and enforcement activities. It performs audits and investigations into these matters.

Q. What is the IESO's position on the AG's recommendation that the MACD be made more independent?

The Independent Electricity System Operator (IESO) has indicated that it agrees with the Auditor General's recommendation. IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of MACD will report directly to the IESO Board of Directors.

Q. Does MACD have the resourcing it needs?

IESO has indicated that it agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at Market Assessment and Compliance Division (MACD) and the process of ongoing review of priorities.

According to IESO, attracting staff with expertise in market rules and investigations will be a priority. As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

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Like all other such market oversight agencies, MACD does not have the resources to pursue every single possible violation of the market rules. Many of the issues cited in the AG Report which it recommends could lend itself to further investigation are not necessarily violations of the rules. In all cases, they also involve market outcomes that will be remedied via Market Renewal.

Q. The OAG finds that IESO hasn't been distributing resources in an effective way to ensure all investigations into improper costs being claimed are being completed. In fact, the OAG states that only one in five potential cases identified by the Director of the Oversight Division can be investigated, because of lack of resources.

Attracting staff with expertise in market rules and investigations will be a priority. The IESO has recently increased staff in MACD. As part of our business planning process for 2018, IESO is also evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff.

Q. What is the scale of this problem (i.e., how many investigations should have been done)? And what is IESO's plan to deal with it? Why does IESO's oversight team not have the proper IT system to do their investigations?

The IESO has investigated nine participants and recovered the majority of ineligible costs. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

As part of the IESO Business Planning for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards MACD's IT support and replacement of the computer system.

Q. With so many stones left unturned, will IESO commit to undertaking a more fulsome audit of generators to ensure ineligible claims are recovered? If given more resources and authority, will the system operator take action on these uncompleted audits?

The IESO has concluded negotiated settlements with participants found to have submitted ineligible costs and has recovered the majority of them. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components. Further and more fundamental changes will be made through the Market Renewal Program.

Q. What is the impact on ratepayers of CMSC and RT-GCG?

In 2016, there was $112 million in CMSC costs and $23 million in GGC costs. These are costs that were required to maintain the reliability of the electricity grid.

To put that into context, $17 billion flowed through the electricity market over that time.

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Regarding the Release of Company Names

Q. Can you release all audit information now?

Individual audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

As part of its role overseeing Ontario's electricity market, the Independent Electricity System Operator (IESO) receives a lot of confidential and commercially sensitive information. This includes information related to individual market participants' offers and bids, and information related to audits.

We need to respect the confidential and commercially sensitive nature of information we receive from market participants.

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. Did you not release the names before because you needed permission?

Audit information is confidential under the provisions of the *Market Manual, Market Rules and Electricity Act, 1998.*

Releasing the names of the market participants would violate our settlement agreements and market rules.

Q. How many of these generators are on the market renewal working group?

The Independent Electricity System Operator (IESO) seeks feedback from many stakeholder segments, including residential consumers, businesses, communities, transmitters, generators and distributors.

The market renewal working group (MRWG) is one of many stakeholder feedback groups we have. The MRWG is a representative stakeholder forum created to guide, advise and inform IESO on important strategic, policy and design issues that will impact the overall success of market renewal initiative.

The MRWG is made up of a cross-section of different participants from across the sector, including generators, LDCs, associations, consumers groups, as well as the MSP~~ and OEB~~.

We recently announced the appointment a low-volume consumer representative on our MRWG to ensure that perspective was being captured.

These representatives are not the decision makers – rather, we listen to their feedback and consider their input. But at the end of the day, the IESO has the final say about market design considerations.

Q. Will you recover the remaining $32 million?

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These costs were disputed by market participants and negotiated settlements were reached whereby the Independent Electricity System Operator (IESO) received about 85 per cent of what it deemed to be ineligible costs.

An example of a disputable cost would be whether certain facility maintenance costs were related to the starting-up of the facility, which would be covered by the RT-GCG program, or whether those maintenance costs were related to the regular operation of the facility.

So IESO identified what it believed to be ineligible RT-GCG costs, and then entered negotiated settlements to discuss costs that were disputed and reach agreements for repayment.

Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

The costs we recovered through negotiated settlements are well within range of settlements that occur in contested law or regulatory enforcement contexts.

Q. Did Ontario Power Generation (OPG) pay back the entire amount of ineligible costs?

We can't release information specific to individual audits.

But we can say that, as a whole, we received about 85 per cent of what we deemed to be ineligible costs across the nine participants.

Cybersecurity – General

Q. Why is cybersecurity such an important issue for the Independent Electricity System Operator (IESO)?

The IESO takes its responsibility of assuring the reliability of the IESO-controlled grid very seriously.

Ontario depends on the reliable functioning of its critical infrastructure, and electricity is one of our most vital systems. Being a reliability coordinator goes beyond just the flow of electrons.

In an increasingly interconnected, distributed and widespread sector, maintaining the safe and sustainable operation of the power grid extends to being best-in-class in cybersecurity.

The IESO complies with all cybersecurity standards set forth by the North American Electric Reliability Corporation (NERC) and in 2016 began operating under an even more robust security governance framework, based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.

The IESO has also taken a leadership role in cross-sector cybersecurity awareness through industry capacity building sessions, the promotion of leading security standards and best practices, and collaboration with organizations and experts in cyber- and IT security policy from across North America.

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Q Does the IESO have a tested cyber incident response plan?

Yes, under North American Electric Reliability Corporation (NERC) rules the Independent Electricity System Operator (IESO) is required to develop and maintain cybersecurity incident response plans. This includes a variety of response actions, including roles and responsibilities of incident response teams, incident handling procedures, and communication plans. These exercises represent relevant cybersecurity risks and support the ongoing continuous improvements of our processes and technologies.

The IESO recently participated in "GridX 4," a biennial exercise designed to simulate cyber/physical attacks on electric and other critical infrastructures across North America. These sessions provide exercise scenarios that link physical and cyberattacks with how system operators would respond to mitigate the impact of these attacks on bulk power system reliability.

The IESO has also shared publicly a series of incident response playbooks that define the procedures for security event investigations, which enables a responder to follow a structured method for validating and responding to each unique security alert.

Q. How is the Independent Electricity System Operator (IESO) audited for compliance with cybersecurity?

In alignment with the IESO's role in delivering superior reliability in a changing environment, every three years, the organization undergoes an audit of its compliance with North American Reliability Corporation (NERC) standards.

This includes two separate audits – one for Operations and Planning standards and a separate audit of Critical Infrastructure Protection (CIP) standards. Cybersecurity requirements fall under the CIP standards.

The purpose of these audits is to ensure that the organization is meeting the requirements of standards set for all users, owners and operators of the bulk electricity system.

The most recent audit occurred in October 2017 and was conducted by the Northeast Power Coordinating Council (NPCC).

For CIP, this was the first audit under the new CIP V5 standards, which came into effect on July 1, 2016. The purpose of CIP V5 is to protect any cyber assets that can affect bulk electric system reliability within 15 minutes of unavailability, mis-operation or misuse.

The audit concluded that IESO is in compliance with applicable standards related to cybersecurity.

In addition to ongoing internal compliance, IESO also engages a professional consulting service provider to perform readiness and compliance assessments.

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Cybersecurity Issues Specific to the AG Report

Q. Does the Independent Electricity System Operator (IESO) agree with the characterizations made by the Auditor General about its IT security and cyber management practises?

The IESO welcomes the Auditor General's report and the opportunity to provide responses, in part to clarify the IESO's existing processes, but also to indicate a number of specific initiatives that are either currently underway or are scheduled in the near term.

The Auditor General accurately identified that IESO complies with rigorous cybersecurity industry standards overseen by the North American Reliability Corporation (NERC).

Moreover, the electricity sector is unique in that it is the only critical infrastructure sector with mandatory and enforceable cybersecurity standards

Q. Does the IESO agree with the Auditor General's finding that the IESO should create a senior-level position dedicated to cybersecurity?

Prior to the release of the report, the Independent Electricity System Operator (IESO) initiated a recruitment process for a Chief Information Officer (CIO) with an increased focus on cybersecurity.

The successful candidate in the CIO position will be an experienced senior technology executive with a deep understanding of Critical Infrastructure Protection (CIP) environments, like IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The target date for the appointment of the CIO is by end of Q1 2018.

The IESO is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

If pressed, additional information:

The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.

The CIO will report to IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.

Effective cybersecurity management is also a collective responsibility that extends to all levels of the organization. The IESO provides its staff with compliance and awareness training on an annual basis.

Q. Does IESO agree with the Auditor's recommendation that IESO should increase the number of cybersecurity staff and engage an external IT cybersecurity vendor?

The Independent Electricity System Operator (IESO) is in the process of implementing an independent consultant's recommendation to increase the number of cybersecurity staff, in a manner consistent with the Auditor General's recommendation. The IESO intends to double the

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size of its current cybersecurity team in 2018.

The IESO has launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center enabling 24/7/365 real-time cybersecurity monitoring. The SOC vendor is expected to be in place in Q2 2018.

The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program that provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyber-incident.

Q. Does IESO agree with the Auditor's recommendation that IESO's IT department needs to involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks?

It is the Independent Electricity System Operator's (IESO) current practice that security risk assessments are incorporated into IT project management practices.

The IESO also understands the complexity and evolutionary nature of cyber readiness and will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. This means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project.

This will be further facilitated by the formation of the IESO's new Program Management Office, which will work to ensure a holistic view on all IESO projects, as well as the appointment of the CIO.

If pressed, additional information:

The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource will establish effective governance, ensuring that security practices are being built-in to IESO's project management program and individual IT project lifecycles.

The IESO is also developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments.

Q. Does IESO agree that it should procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information?

The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of IESO IT environments.

Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.

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Q. Does IESO agree that it should encrypt all backup tapes and store them in a secure off-site location?

The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.

Q. Does IESO agree with the AG's recommendation to establish an external vendor cybersecurity policy; and have the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO?

The Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.

The IESO is also in the process of developing and implementing supply chain risk management measures to that comply with NERC Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation.

In addition to that, IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors

The IESO is developing a best practice guide for the sector on cybersecurity risks in the supply chain. The target completion date for the report is Q3 2018.

Q. The Auditor's report identified a 2015 IESO breach where confidential contract information of a market participant was accessible to other participants. What happened, and how has/ will IESO prevent that from happening in the future?

The Independent Electricity System Operator (IESO) takes its responsibility of assuring the reliability of IESO-controlled grid very seriously and ensures compliance with North American cybersecurity standards

On September 14, 2015, IESO detected a technical issue that had caused its public reports site (reports.ieso.ca/public) to display the private reports and records of its Market Participants in addition to the standard public reports.

The issued occurred after IESO's IT group was troubleshooting intermittent outages on the new private reports site, which had been implemented about six weeks before.

In the process of troubleshooting the outages, a configuration error occurred, which essentially reversed the URLs for the public and private report sites.

As a result, access to the private reports site was open to the public for just under seven minutes. Upon discovery of the error, IESO immediately disabled all access to the report site until the configuration was corrected.

Subsequently, IESO put into place control measures through the report sites information migration process to prevent the issue from re-occurring.

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APPENDIX – IESO'S KEY MESSAGE FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

- Real-Time Generation Cost Guarantee Program (RT-GCG) = Standby Cost Recovery Program (AG)

- Congestion Management Settlement Credits (CMSC) = Lost Profit Recovery Program (AG)

KEY MESSAGES – GENERAL

- The Independent Electricity System Operator (IESO) supports the Ontario Energy Board's Market Surveillance Panel's (MSP) work and acknowledges the recommendation made by the Auditor General.

- The IESO carefully considers every MSP recommendation and its underpinning analysis and responds to each recommendation outlining the actions IESO will take in a letter directed to the Chair and CEO of the Ontario Energy Board (OEB).

- The IESO has been taking action to address market inefficiencies since market opening in 2002.

- Many improvements have been made over the years to reduce payments to the minimum necessary to operate the grid reliably.

- Fundamental changes to Ontario's electricity market are now being made as expeditiously as possible through the Market Renewal Program.

- We are in stable supply situation, making now the right time to make these changes.

- Until fundamental changes can be made, Real-Time Generation Cost Guarantee Program (RT-GCG) and Congestion Management Settlement Credits (CMSC) will continue to be needed to maintain reliability and meet North American reliability standards.

- Due to the changes that have been introduced, the RT-GCG program operates more efficiently today. Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017.

- A new cost recovery framework has removed the potential for overpayments and the need for after-the-fact audits for 14 of 15 cost components in the RT-GCG program.

- Generators who submitted and received ineligible costs through the GCG program were identified by IESO audits and the majority of costs (up to 85 per cent) were recovered.

- The Market Renewal Program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers.

- Market Renewal savings come from better scheduling and dispatching resources, and more efficiently procuring the capacity Ontario needs.

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- A low-volume consumer representative is on our Market Renewal Working Group to ensure that perspective is being captured.

KEY MESSAGES – REAL-TIME GENERATION COST GUARANTEE PROGRAM (RT-GCG)

- The Independent Electricity System Operator (IESO) administered markets select and schedule just enough resources to meet energy and operating reserve demands every five minutes.

- The IESO has to be prepared for changes, both expected and unexpected, to the electricity system in order to maintain reliability. Having additional resources on standby allows IESO to effectively meet those changes, without reducing reliability or causing significant price fluctuations.

- Gas generators typically perform this function and they can take several hours to start and synchronize to the grid. During this period, these generators incur costs to start up and idle that they might be unable to recover through market revenues. The Real-Time Generation Cost Guarantee Program (RT-GCG) addresses this by covering certain costs should market revenues fall short.

- Without this program, IESO would be unable to ensure that generators are on standby to maintain reliability and would have to manage them in a less efficient manner, resulting in higher costs and negative impacts on reliability for Ontario and its neighbours.

- Since the blackout in 2003, all system operators are required to create operating plans for each day that clearly demonstrate their ability to maintain reliability for the region. Other system operators have similar approaches that commit generators and compensate them for starting up and being on standby.

- The RT-GCG program ensures sufficient generation is available to meet expected demand on a daily basis and is a key component in demonstrating compliance with mandatory continent-wide operational planning standards.

- The IESO is making fundamental changes to the electricity market that will include replacing the RT-GCG program with a more efficient and transparent form of generator unit commitment.

- Until fundamental changes can be made, the RT-GCG program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.

- The IESO has made changes over the years that have made the RT-GCG program more efficient and transparent today, including to eligibility and cost submissions.

- Program costs have fallen from $61million in 2014 to $23 million in 2016 and $22 million in 2017. The IESO now pre-approves 14 of 15 eligible costs, removing the potential for overpayments and the need for after-the-fact audits for these components.

- Generators who submitted and received ineligible costs through the RT-GCG program were identified by IESO audits and the majority of costs were recovered.

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- Two-thirds of ineligible costs were submitted by one generator, who was fined for failing to provide true, correct and complete information to the best of its knowledge.

- Where the estimated full costs were not recovered, the potential litigation risks and costs were assessed to be higher than what might reasonably be expected to be recovered. Any attempt to recover additional costs was likely to result in a worse outcome for ratepayers.

KEY MESSAGES – CONGESTION MANAGEMENT SETTLEMENT CREDITS (CMSC)

- Congestion Management Settlement Credits (CMSC) are paid to market participants, like generators and some large consumers, when they are scheduled by the Independent Electricity System Operator (IESO) to consume or inject when they would otherwise be doing so at an operating loss. Instances where CMSC are paid are a result of system constraints, such as transmission line limits.

- CMSC payments are needed to maintain the reliability of Ontario's electricity system. They are necessary to incentivize resources to comply with IESO dispatch instructions.

- These are mostly costs that are inherent in any electricity system, reflecting constraints, such as transmission line limitations, and measures required to maintain reliability.

- According to IESO, eliminating CMSC under the current market structure would undermine grid operations as suppliers would refuse to follow dispatch if they were asked to operate at a loss. This would challenge the reliability of Ontario`s electricity system and impair our ability to meet North American power system reliability standards.

- CMSC will continue to be needed until fundamental changes can be made to the electricity market through the Market Renewal Program.

- The IESO has made more than a dozen market rules since 2003 that improved program effectiveness and transparency, increased efficiency of CMSC, and reduced costs – many of these changes are responsive to Ontario Energy Board's Market Surveillance Panel (MSP) recommendations.

- A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- As the MSP acknowledges, some costs associated with CMSC will continue to exist in different forms even with the replacement of the current market design.

KEY MESSAGES – IESO'S CYBERSECURITY PROGRAM

- The Independent Electricity System Operator (IESO) is working to shape the future cybersecurity landscape in Ontario's electricity sector. We're doing this by collaborating with policy makers from around the world and addressing emerging challenges and opportunities associated with an increasingly digital sector.

- The IESO is also driving continuous improvements in three key areas:

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- Strengthening our organization's security posture;
- Ensuring compliance while driving innovation; and
- Establishing strategic partnerships to innovate cyber defense.

- The IESO's new Chief Information Officer (CIO) will oversee our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management is being addressed and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring that will assist with incident detection and response. This will help ensure that threats targeting data and assets are locked down and eliminated before they cause widespread damage and disruption.

- We have expanded our threat management and detection capabilities that protect our corporate network. This includes replacing traditional antivirus software with advanced endpoint malware protection technology. Studies put the number of security breaches originating at endpoints between 70-95 per cent. The IESO is making investments to close that gap over its network.

- The IESO has adopted a robust security governance framework that goes beyond current electricity sector standards and is based on the National Institute of Standards and Technology (NIST). This framework is considered the absolute best practice on cybersecurity across all industries and will help IESO remain current with the latest in cryptographic techniques, encryption, identity and access management and network security.

- The IESO brings together sector counterparts as well as the world's leading cybersecurity policy experts to stay up to date on best practices and trends in the emerging cyber-threat landscape. Our cybersecurity executive briefing was the first of its kind in Ontario's electricity sector, and we are developing a best practice guide for the sector on cybersecurity risks in the supply chain.

- The IESO has developed a collaborative legal framework with the Communications Security Establishment (CSE), Canada's cryptographic agency, internationally recognized for its cyber expertise. This framework will promote integrated information and data sharing in defending cyber-attacks. It has been leveraged by more than 25 utilities across Canada. The IESO will assist the CSE in expanding its cyber capabilities with respect to Ontario's electricity sector.

- The IESO is working with provincial government and electricity regulator to ensure cybersecurity defenses are providing effective oversight to mitigate cyber risks and threats at the distribution level. The IESO also works directly with Ontario's electricity distributors to provide training and best practices. The IESO shares and promotes best practice guides.

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KEY MESSAGES – COMPLIANCE AND RELIABILITY

- Cybersecurity is a fundamental component of the Independent Electricity System Operator's (IESO) role in maintaining the safe and sustainable operation of Ontario's power grid. We make sure our network is secure by:
    - Ensuring compliance with North American regulatory requirements and industry standards;
    - Investing in new technology, techniques and training to ensure we are equipped with the best resources to combat cyber-threats;
    - Collaborating with our sector counterparts as well as the world's leading cybersecurity policy experts to remain current on best practices and trends in the emerging cyber-threat landscape;
    - Creating robust response capabilities by conducting cyber-incident scenario planning; and
    - Incorporating a "cybersecurity by design" approach into IT program development.
- The IESO complies with a series of continent-wide cybersecurity standards, defined by a standards body called the North American Electric Reliability Corporation, or NERC.
- Ontario's generators, transmitters and other industry participants are required to implement and comply with these standards. Some of these standards include:
    - Security management controls to protect critical cyber assets;
    - Ongoing cyber vulnerability assessments;
    - Cybersecurity incident response and recovery planning;
    - Mandatory staff training and awareness programs; and
    - Procedures to restore critical cyber assets.
- In 2016, IESO developed a renewed cybersecurity strategy that included the adoption of an even more robust security governance framework. It is based on the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity. This framework is considered absolute best practice on cybersecurity across all industries.
- In addition to continuously strengthening our protection and resilience to cyberattacks, the IESO plays a leadership role in the sector by supporting innovation and capacity building in the field of cyber threat management. We do this by:
    - Providing collaborative forums to share best practices to address existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector;

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- Hosting executive and board-level cybersecurity briefings to learn from cybersecurity experts from around the world to conduct productive, collaborative and forward-looking dialogues on key areas of cybersecurity; and

- Working directly with our reliability partners, like smaller utilities and sector participants, to address cybersecurity issues at all levels of the provincial system.

- Supporting the development of new policies and industry frameworks that focus on reliability, security and privacy.

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APPENDIX – KEY ISSUES FOR STANDING COMMITTEE ON PUBLIC ACCOUNTS CHAPTER 3 (MARKET OVERSIGHT AND CYBERSECURITY)

Real-Time Generation Cost Guarantee Program (RT-GCG) / Congestion Management Settlement Credits (CMSC) – IESO

The Auditor General's report highlight the follow issues with respect to the Independent Electricity System Operator's RT-GCG and CMSC. The AG Report is critical of the RT-GCG program and CMSC:

- $30 million in additional costs is spent per year on RT-GCG program despite the Market Surveillance Panel (MSP) recommending the Independent Electricity System Operator (IESO) scale back the program.
- $260 million in ineligible RT-GCG costs were paid out from 2006-2015 and only about half has been recovered.
- About $1.6 billion of CMSC paid since 2002, including $500 million to just a few market participants in the northwest; was supposed to be temporary.
- Market participants who have misused programs are allowed to participate in the market renewal working group.
- Market Assessment and Compliance Division (MACD) has limited resources and is not sufficiently independent.

Legislative Power and Authority of the Ontario Energy Board (OEB) – Ministry of Energy

In the Auditor General's report it is recommended that to ensure that ratepayers' interests are protected and that recommendations made by the OEB's Market Surveillance Panel (MSP) to improve market rules are addressed that the Ministry of Energy review the legislative power and authority of the OEB to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the MSP and is not effectively being addressed by the Independent Electricity System Operator (IESO).

Legislative Authority Market Assessment and Compliance Division (MACD) – Ministry of Energy

In the Auditor General's report it is recommended that to enable the Independent Electricity System Operator's MACD to conduct thorough and effective investigations that the Ministry of Energy should give MACD explicit legislative authority under the Electricity Act, 1998 to compel information and evidence in the course of its investigations.

Industrial Conservation Initiative – Ministry of Energy

In the Auditor General's report it is recommended that to ensure the transparency of government decisions with respect to the Industrial Conservation Initiative (ICI) that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.

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Cybersecurity – IESO

The Auditor's review acknowledges that the Independent Electricity System Operator (IESO) complies with regulatory standards, but suggests there are potential vulnerabilities in its practices that could leave IESO susceptible to cyber breaches, which could in turn jeopardize reliability.

The AG report includes a range of recommendations, paraphrased below, that suggest IESO should:

- Create a senior-level position dedicated to cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors
- Increase the number of cybersecurity staff and engage an external IT cybersecurity vendor
- Ensure its IT department involves its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks
- Procure technology that prevents and identifies breaches of confidential information and monitor staff access to confidential information
- Encrypt all backup tapes and store them in a secure off-site location

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SCOPA Chapter 3 intro remarks - all 20180305.pdf

From:	Whytock, John (ENERGY)
To:	Nucciarone, Michael (ENERGY)
Cc:	Cox, Hilary (ENERGY); Hendy, Adam (ENERGY)
Subject:	SCOPA Chapter 3 intro remarks - all 20180305
Date:	March 5, 2018 4:22:32 PM
Attachments:	SCOPA Chapter 3 intro remarks - all 20180305.docx

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Remarks, with new IESO notes from earlier this afternoon. DM's version remains unchanged.

Any questions, please let me know.

Thanks
jw

SCOPA Chapter 3 intro remarks - all 20180305_1_1.pdf

SCOPA Chapter 3 – Introductory Remarks

Final

Mi<u>nistry of Energy</u>

Introductory Remarks by DM Imbrogno (5 mins)

- (Introductions – to my right, to my left, also joining us ….)

- This afternoon we'll have the opportunity to address the 18 recommendations made by the Office of the Auditor General in chapter 3 of the latest annual report.

- Ontario's electricity system has layers of oversight designed to ensure we have an efficient, cost-effective system and a reliable supply of power.

- In particular, the Ontario Energy Board plays a vital role in ensuring that the electricity market operates in a way that is in the best interest of ratepayers.

- In distinct but interrelated ways, the Ministry and the OEB, and the Independent Electricity System Operator, are continuously looking for ways to improve our electricity system.

- Overall, I am confident that our electricity market works efficiently and serves our residential, industrial and commercial customers well.

- Today is a good opportunity for each of our organizations to speak about the mechanisms we have in place now, and some of the system improvements planned for the future.

- We welcome and appreciate the recommendations of the Auditor General and agree with the need for a high degree of oversight in the electricity market.

- In particular, we welcome the advice on the market rule review and amendment process and the enforcement of market rules, and we are committed to working collaboratively in addressing these, including reviewing the Electricity Act as needed.

- We welcome the Auditor's recommendation on the Industrial Conservation Initiative. We continue to monitor the impact of this program.

- Reducing peak demand is a significant priority of my ministry and the ICI is an essential tool in helping us achieve that. We will continue to monitor the effect of this program on all classes of electricity consumers.

- I look forward to answering your questions today. I'm now going to hand it over Rosemarie Leclair, Chair of the OEB, to offer some introductory thoughts. And after Rosemarie, Peter Gregg from IESO will also have introductory remarks. Thank you.

(remarks by OEB and IESO follow)

Ontario Energy Board

Introductory Remarks by Rosemarie Leclair (5 mins)

- Thank you (NAME). Good afternoon Chair and members of the committee. My name is Rosemarie Leclair and I am the Chair and CEO of the Ontario Energy Board.

- I would like to introduce the members of the Board who are with me today:
    - Glenn Leslie, Chair of the Market Surveillance Panel;
    - Mary Anne Aldred, Chief Operating Officer and General Counsel; and
    - Martine Band. Associate General Counsel.

- We were pleased to read in the Auditor General's Report that the OEB's Market Surveillance Panel, the MSP, has been effective in monitoring and reporting inappropriate market conduct.

- Under the Electricity Restructuring Act, 2004, the Market Surveillance Panel transferred from the Independent Electricity System Operator, or IESO, to the Ontario Energy Board, effective January 1, 2005. The MSP is responsible for monitoring the wholesale electricity markets administered by the IESO.

- The MSP has two principal functions:

- The first is regular monitoring and assessment of the IESO-administered markets: Central to the assessment function is the identification and analysis of market outcomes that fall outside predicted patterns or norms. The MSP reports the results of its monitoring and assessment activities twice annually.

- The second function is to investigate market participant conduct: The MSP has broad powers to investigate, but not punish, market participants in relation to their activities in the wholesale markets.

- The OEB posts both these reports on our website when they are completed. Copies of the reports are transmitted to the IESO and OEB staff brief the IESO Board of Directors on the report's findings. Since the Auditor General's Report was released, the OEB has written to the IESO with regard to the IESO's near-term plan to implement the recommendations of the MSP (need to check).

- As stated in our response to the Fall Report, the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998.

- We thank the Committee for inviting us to attend and are happy to answer any questions the Committee may have.

Independent Electricity System Operator

Introductory Remarks by Peter Gregg (10 mins)

- Thank you. I want to begin by thanking the committee for inviting the IESO to be here today to discuss the 2017 Auditor-General's report, as well as the Auditor-General and her staff for their recommendations and their cooperation throughout the development of the report.

- I am here today with:

    - Leonard Kula, Vice-President of Planning, Acquisition, and Operations;
    - Sorana Ionescu, Acting Vice-President of Information and Technology Services;
    - Glenn McDonald, Director of our Market Assessment and Compliance Division.

- I want to say a quick word about the IESO's mandate, and then I'll focus on some of the topics discussed in the Auditor-General's report, specifically our role with respect to market oversight and cybersecurity.

- The IESO works at the heart of Ontario's electricity system and has a broad mandate that includes: o planning to meet Ontario's electricity needs in the near and long term; o operating the provincial electricity grid;

    - administering the electricity market;
    - fostering a culture of conservation; and
    - engaging with stakeholders and communities across the province.

- We also have a key role informing and implementing policy, and creating opportunities that enable innovation in the sector.

- Most of what we do is informed by stakeholder input. In fact, creating processes for stakeholders to provide input is a legislative requirement of ours. A set of principles guides our engagements, ensuring that they are open, transparent, inclusive and have adequate representation of the public. The final decision always lies with the IESO, but creating processes to receive public feedback indiscriminately is a key principle of ours.

- Stakeholder input has significantly improved the quality of our work, particularly guiding process and market design changes. Similar to other market operators in North America, engaging with the market participants who collectively keep the system running is critical, and that's part of why stakeholder engagement is part of our DNA.

- When it comes to administering Ontario's electricity market, the IESO's Market Assessment and Compliance Division, a ring-fenced business unit, monitors its operation, fostering compliance with the province's market rules and North American reliability standards. Its enforcement authorities also include the ability to audit certain market programs and adjust payments from the program, similar to Canada Revenue Agency tax audits.

- The IESO agrees with the Auditor General's recommendation that a review of sufficiency of enforcement resourcing be conducted, as it is consistent with recent increases in staff at MACD and the process of ongoing review of priorities. Attracting staff with expertise in market rules and investigations continues to be a priority.

- All of these efforts would be for nothing if we weren't able to ensure Ontarians have power when they need it… and that is why

maintaining the reliability of Ontario's electricity system is at the core of what the IESO does.

- The Auditor General's 2017 report focuses on two market functions that are critical to accomplishing this task: the Real-Time Generator Cost Guarantee program and Congestion Management Settlement Credits.

- Without these programs, the reliability of Ontario's electricity system would be reduced and North American power system reliability standards would not be met—these standards were put in place following the 2003 blackout and are mandatory in Ontario.

- The IESO's Market Assessment and Compliance Division and the Ontario Energy Board's Market Surveillance Panel have identified inefficiencies with these programs and the IESO has taken action to address them.

- Enhancements to the Real-Time Generator Cost Guarantee program include pre-defined costs and stricter rules that have increased transparency and efficiency. Annual program costs were $22 million in 2017, down significantly from $61 million in 2014. Costs claimed under the previous version of the program that could have been found to be ineligible were identified and the majority were recovered, and one generator responsible for two-thirds of the costs was fined an additional $10 million.

- Regarding Congestion Management Settlement Credits, the IESO has updated more than a dozen market rules to make it more efficient. As the MSP noted in a December 2016 report, "Many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

- In some instances, our assessments have found that implementing changes recommended by the Market Surveillance Panel would compromise the reliability of Ontario's electricity system. This speaks to the different mandates of the MSP and IESO. The MSP looks at our electricity system from a market efficiency standpoint, while the IESO must consider a broader range of factors, most importantly impacts on reliability.

- Ontario is in a stable supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive and transparent electricity market.

- It is through the electricity market that we accept offers and bids for energy and schedule the lowest-cost resources needed to meet the province's electricity needs. In this way the market provides the most efficient outcomes, as it does in other jurisdictions, and it is through the market that we maintain a reliable system.

- Market Renewal is estimated to result in up to $5.2 billion in savings over 10 years, the majority of which will be realized by ratepayers. This will include replacing the RealTime Generator Cost Guarantee program with a more efficient and transparent mechanism and eliminating Congestion Management Settlement Credits. The OEB's Market Surveillance Panel is supportive and is participating in the market renewal initiative.

- On cybersecurity, the Auditor General acknowledges that the IESO is adhering to North American standards but suggests that further enhancements could be made.

- Cybersecurity remains at the core of the IESO's role in maintaining the safe and reliable operation of Ontario's power grid and a reliable supply of electricity for Ontarians, and we take this job very seriously.

- For us, ensuring effective cybersecurity management comes down to three mains things:

    - 1. Continuously strengthening our organization's security posture
    - 2. Ensuring compliance while driving innovation, and
    - 3. Establishing strategic partnerships to innovate cyber defense

- We have recently hired a new Chief Information Officer (or "we are in the final stages of selecting a new CIO"). The IESO's CIO will continue to drive our enterprise-wide cybersecurity management program and ensure that cybersecurity risk management continues to be addressed, enhanced and integrated across all levels of the organization.

- To support our in-house team of cybersecurity specialists, the IESO is establishing a robust security operations centre to provide 24/7 real-time cybersecurity monitoring to assist with incident detection and response.

- Beyond the ongoing technical improvements the IESO is implementing to maintain and strengthen its cybersecurity posture, we remain committed to playing a leadership role in the electricity sector by supporting innovation and capacity building in the field of cyber threat management. We bring together sector counterparts as well as the world's leading cybersecurity policy experts to share best practices in addressing existing and emerging cybersecurity issues to improve cybersecurity within Ontario's electricity sector.

- As we've seen recently, the federal government has committed to significant investments in cyber threat management. The IESO is working with the Communications Security Establishment (CSE), Canada's cryptographic agency. Together we are exploring integrated information and data sharing in defending cyberattacks and working on ways to proactively address mutual cyber issues.

- In closing, the IESO supports the Market Surveillance Panel`s work and acknowledges the recommendation made by the Auditor General. I look forward to answering any questions you have today.

SCOPA Materials for DM(1).pdf

From:	Edwards, Matthew (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Sermat-Harding, Kaili (ENERGY)
Subject:	SCOPA Materials for DM
Date:	February 27, 2018 4:11:00 PM
Attachments:	2. AFT SCOPA Numbers At a Glance.docx 3. AFT SCOPA QAs - CRED.DOCX 1. AFT SCOPA BN.DOCX

Hi Martin,

Following up on your conversation with Kaili earlier, attached are the materials for SCOPA tomorrow. Please let me know if you have any follow-up.

1) Briefing Note
2) Numbers at a Glance
3) QAs

Thanks,

Matt

2. AFT SCOPA Numbers At a Glance_1.pdf

AFFORDABILTY FUND

NUMBERS AT A GLANCE for SCOPA

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, **approximately 4,280 applications** had been received.
- Eligible applicants are starting to receive benefits which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent **$1,709,724**, and earned interest on investment of **$98,969,457**.
    - Examples of activities covered under these costs include detailed program design, including stakeholder consultation, and processes established to support the administration of the Fund and
- As of February 23, 2018:
    - **60 (of about 65**) LDCs have indicated an interest in delivering the Affordability Fund program
    - **26** LDCs have signed Implementation Agreements with the Trust.
    - Approximately **36% of the $100M budget** has been allocated.

APPENDIX – INTERNAL DATA

NTD: The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 23-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)	1,186
Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	286
Sent to LDCs or Ready to be Sent to LDCs	2,810
Total Applications Processed	**4,282**

Metrics As of Feb 22, 2018*	**Amount**
Number of Participating LDCs	60
Number of Implementation Agreements Signed	26
Budget Allocations Received	22
Up-Front Allocations	$8 M
Dollars Allocated Overall	$32 M
Percent of $100M Allocated ($89.1M)**	36%

** $89.1M has been earmarked for the electricity distributors. The balance is intended for AFT's central admin and other costs to establish and oversee the Affordability Fund

Metrics:

Number of Participating LDCs: refers to those LDCs who have indicated they are interested to deliver the Affordability Fund program to their customers. The 60 LDCs represent a total base of 5,068,320 residential customers.

Number of Implementation Agreements Signed: The AFT can delegate an electricity distributor to deliver the Affordability Fund program through execution of an Implementation Agreement between the Trust and the distributor.

Percent of $100 M Allocated: This is the total of submitted and approved budget requests. In addition to implementation agreements, the distributors must submit to the AFT a budget request. Once approved distributors can receive an up-front allocation (to cover start-up/admin) and then recover costs on basis of invoicing. Distributors must establish a separate AFT account for all money which is to be received from the Trust. About $32 million of the budget has been allocated, $8 million of which will be provided up-front.

AFT LDC BUDGET ALLOCATION

- The following 22 LDCs have submitted budget allocations; 4 additional LDCs have signed Implementation Agreements but have yet to submit their budget allocations (see below).

Name of LDC	Up-Front	Total Allocation
Alectra Utilities	$3,027,500	$12,110,000
Algoma Power	$143,500	$574,000
Canadian Niagara Power Inc.	$144,500	$578,000
Chapleau Public Utilities Corporation	$61,570	$246,280
Cornwall Street Railway Light and Power	$369,438	$1,477,750
Energy+ Inc.	$464,060	$1,856,234
Entegrus Powerlines Inc.	$158,420	$633,680
Erie Thames Powerlines Corporation	$116,250	$465,000
Espanola Regional Hydro Distribution Corporation	$149,760	$599,040
Greater Sudbury Hydro Inc.	$607,393	$2,429,570
Hearst Power Distribution Company Limited	$63,130	$252,520
Kitchener-Wilmot Hydro Inc.	$310,225	$1,240,900
Midland Power Utility Corporation	$136,815	$547,260
Newmarket- Tay Power Distribution Ltd.	$379,620	$1,503,860
North Bay Hydro Distribution Limited	$305,153	$1,220,610
Northern Ontario Wires Inc.	$248,685	$994,740
Oakville Hydro Electricity Distribution Inc.	$134,312	$537,250
PUC Distribution Inc.	$618,498	$2,473,990
Renfrew Hydro Inc.	$137,625	$550,500
Welland Hydro-Electric System Corp.	$200,484	$801,936
West Coast Huron Energy Inc.	$52,705	$210,820
Westario Power Inc.	$185,125	$740,500
Total	$8,014,768	$32,044,440

The following four LDCs have signed Implementation Agreements and will submit their Budget Allocations in the near future:

- Centre Wellington Hydro;
- Kenora Hydro;
- Rideau St. Lawrence Distribution Inc.; and
- Waterloo North Hydro

AFT 2018 BUDGET Forecast (does not include allocations to LDCs)

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

- The 2018 projection is higher than that of 2017 as it accounts for the full year, includes the Parachute Work Management system, and cost centre charges (anticipated to increase with increased activity).

3. AFT SCOPA QAs - CRED_1.pdf

AFFORDABILTY FUND

QAs for SCOPA

1. **Why is the Affordability Fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the program?**

    - The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors effectively and expeditiously.

    - With approximately 65 electricity distributors in the province, having the Province enter into agreements with each distributor was not feasible.

    - The Trust structure establishes an independent entity with expertise from the community and electricity distributor sectors. This has enabled the Trust to leverage directly the knowledge and expertise of the sectors best positioned to target customers in need of assistance.
        - The Board of Trustees for the Trust includes representation from two community organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three distributors (Thunder Bay Hydro, Alectra and Hydro One). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

    - Administering the Fund through an independent Trust, as opposed to the IESO or OEB, enables the Fund to focus on its mandate of helping those who are in need, but not eligible for low-income conservation programs.

    - Hydro One has played an important role in facilitating the establishment of the Trust, and continues to play an administrative support role to the Board of Trustees in the implementation of the Affordability Fund.
        - They (Hydro One) are the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.

    - The IESO, which has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of the Home Assistance Program.

- In fact, in August 2017, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. How much control does the Province or Hydro One have over the Trust?

- The Affordability Fund Trust has been established as a non-controlled independent Trust to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements.

- The Trust is undertaking its duties on the basis of principles and guidance in the Transfer Payment Agreement between the Ministry of Energy and the Trust, and the Declaration of Trust, established by the Province.

- Trustees have discretion on how they implement the program.

- The Trust structure leverages the expertise of the electricity and community sectors. The composition of the Board of Trustees represents a geographical cross section of the Province.

- Individual members were recommended by an Advisory Committee, established by the Ministry of Energy. Members include:

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One representatives to ensure that Hydro One does not control voting decisions of the Trust.

  - Hydro One played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and delivery of the Affordability Fund.

- A Ministry of Energy representative sits on the Board as a non-voting Trustee and is the only government representative on the Board.

3. What accountability and reporting structures are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

- The Transfer Payment Agreement (TPA) between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectations of the Trust and the Trustees, including the delegation of program delivery to electricity distributors.

- The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

- The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

4. Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

  - In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:

    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015. We also know that over 58,000 customers were disconnected the following year (2016)

    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which

provides low-income support program.

- In January of 2017, Hydro One submitted a report to the Ministry of Energy titled "Addressing Affordability". The report outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs offered by their local distribution company

- For example, the existing Home Assistance Program (HAP) delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes.
    - HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes.
    - Measures installed though HAP include LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars.
    - Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

- To qualify for HAP participants are required to meet a mandated definition of low-income consumers (derived from Statistics Canada).

    - Not all customers who are in need meet the mandated definition and are therefore not eligible for HAP.

5. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

- The Affordability Fund was established through an independent Trust that was provided with an upfront amount of $100 million. The Trust is administering the Affordability Fund and disbursing funding to electricity distributors.

- Given the scope of the Fund, a firm upfront financial commitment was required before implementation as:
    - An upfront commitment enables the Trust to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow;

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas; and

- The Trust is helping to address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help customers get on a more sustainable path with their energy bills.

6. Explain how payments to the Trust and electricity distributors are made.

- The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, who in turn deliver energy efficiency measures to eligible customers.

- The amount of funding will vary across LDCs. LDCs submit budget allocations to the Affordability Fund based on their assessment of the potential number of eligible applicants, which would include consideration of factors such as the number of customers residing in electrically heated homes.

7. What are the anticipated overhead requirements for the Affordability Fund?

- The Trust is responsible for establishing the program's design, consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province.

- It is expected that the Trust will manage its administrative/overhead expenses in a manner that optimizes the funds available for eligible customers.

8. Were there other potential organizations that could have delivered the program?

- Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered lacking the necessary capacity to design and ensure effective and timely delivery of this type of program.

    - The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the

Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise in conservation and demand management programs and no direct channel or ties to electricity distributors.

- LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs.
    - LDCs and other electricity distributors such as Independent Power Authorities, who are also eligible for the Fund, are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

9. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

- The Affordability Fund is accessible to electricity distributors to deliver energy efficiency measures to Ontarians who are not eligible for the low-income Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The program is delivered in three steps.
    - Step 1 – the homeowner first contacts the Affordability Fund through the website or by phone to determine if their electricity bill is a burden;
    - Step 2 - an Affordability Fund representative will contact the homeowner for basic information such as household income and average electricity bill;
    - Step 3 – homeowner will receive their energy efficiency measures and upgrades.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - energy-saving light bulbs (LEDs);
    - power bars;
    - energy efficient window ACs;
    - refrigerators, freezers, dehumidifiers;
    - low-flow showerheads, hot water blankets;
    - pipe wrap and faucet aerators (in homes with electric water heating); and
    - programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Additional Affordability Fund measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher.

- Cold climate air source heat pumps, which can cost from $7,000 to $13,000, are also an eligible measure under the Fund for homes that are electrically-heated.

- The types of home upgrades and total cost of measures a customer will be able to receive from the Affordability Fund are calculated by the household's level of electricity burden.

- A household's level of energy burden, known as the *Electricity Affordability Burden (EAB)*, measures the strain energy costs place on that household. The EAB is calculated by dividing a household total electricity charges by the net household income.

- Depending on the level of their EAB, a household will qualify for one of three levels of measures:
    - *Level 1:* A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators). LDCs are also expected to conduct targeted outreach to identify potential customers.
    - *Level 2:* Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - *Level 3:* Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: range of $500-$15,000 per customer is confidential and has not been made public)***

10. What is an Electricity Affordability Burden?

- Fund beneficiaries will be members of households whose electricity costs place a strain on the family. This strain is captured in a metric known as the Electricity Affordability Burden (EAB).

- The EAB is calculated by dividing the total electricity charges by the net household income. This total electricity charges include the installment and fees expected of the account holder over the period under consideration. Installment payments, bills, and fees are assessed over the same period as the net household income.

  EAB = (Electricity Bills + Installment Payment + Fees) / Net Household Income

11. What is the eligibility criteria for the program?

- The Affordability Fund is accessible to Ontarians who are not eligible for the low-income Home Assistance Program (HAP) and who are unable to undertake energy efficiency improvements without support.

- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

- The residence must be located in the Province of Ontario and be used exclusively for residential occupancy or be a multi-unit residence, with the Beneficiary being responsible for the direct payment of their electricity usage and costs.

- The level of support available to eligible households under the Affordability Fund program is based on the electricity affordability burden.

12. **Would tenants be eligible?**

- The Affordability Fund is targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills.

- Tenants who pay their electricity bills could be among the eligible customers identified by distributors as needing help.

- Eligible customers will be identified by distributors and could include those in frequent arrears or facing disconnection.

13. How soon will eligible customers be able to start benefiting from the Fund?

- Eligible customers are beginning to receive energy efficiency measures. LDCs are rolling out the Affordability Fund over the coming months. As of February 23, 2018, 26 LDCs have signed implementation agreements with the Affordability Fund; with 22 of the 26 also submitting their budget allocations.

14. How much can a customer who takes advantage of the Fund expect to save?

- Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home.

- Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year.

- In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

15. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

- The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid.

16. Will the program be delivered province-wide?

- Yes, the program is available province-wide.

- The Affordability Fund Trust is accessible to all electricity distributors in Ontario, to provide energy efficiency upgrades to eligible customers.

- Where a distributor cannot or does not wish to provide the program, Hydro One will deliver in the program in the LDC's service territory on behalf of the Trust.

17. How will the Affordability Fund program be marketed?

- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

- Given the targeted nature of the program, a broad province-wide marketing campaign would not be an effective way to spend marketing funds.

- It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers. Eligible customers will be identified by electricity distributors.

18. How will you evaluate the success of the Affordability Fund?

- Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation.

- The Affordability Fund Trust is required to provide the Ministry of Energy with details on a quarterly and annual basis. Information required includes:
    - Amounts disbursed by the AFT to Electricity Distributors, and in aggregate;
    - Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor;
    - Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT; and
    - Electricity Distributor and customer feedback and lessons learned.

19. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

LINKAGE QUESTIONS

20. How does the Affordability Fund augment existing rate mitigation and conservation initiatives?

- Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

- Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

- To help electricity consumers across the province achieve cost savings, the government implemented the Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

21. How will the programs compare with the existing Home Assistance Program?

- The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- The Fund includes additional measures such as block heater timer, solar attic fan, and air source heat pumps. Since some measures may have greater impact in certain areas of the province, e.g. block heater timer, air source heat pump, LDCs have the flexibility to select from a list of available measures that can maximize the energy savings opportunities for their customers.

- Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure while eligibility for the Affordability Fund is based on the electricity affordability burden.

    - The electricity affordability burden is the ratio of the utility ‘asked to pay amount’ divided by the ‘net household income’.
    - Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

- The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from electricity rates.

22. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

  Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.
- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

23. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

- A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure

investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

- On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

24. What happens to unspent funds?

- It is expected that the funds through the Fund will be deployed within two years of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

- The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustees would identify one or more Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

25. Does the Ministry have the ability to claw-back funds?

- The TPA includes claw-back provisions to recover funds not used for the intended purposes.

1. AFT SCOPA BN_1.pdf

AFFORDABILTY FUND

Briefing Note for SCOPA

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which provides oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.

- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.

- The table below outlines the Board of Trustees for the Affordability Fund Trust.

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister) (non-voting)

- Local utilities are rolling out the Affordability Fund over the coming months, and in some parts of Ontario eligible customers have started receiving benefits.

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.

    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

- An interim Advisory Committee was established by the Ministry of Energy to make recommendations to the Original Trustee regarding the appointments of the Board of Trustees. The Committee acted independently to appoint the Board of Trustees. Committee members were selected because they possessed relevant knowledge and experience to identify and evaluate suitable replacement Trustees. Advisory Committee members were:

    - Brian Bentz (CEO, Alecta Utirlities)
    - Bryce Conrad (CEO, Hydro Ottawa)
    - Robert Mace (CEO, Thunder Bay Hydro)
    - Ferio Pugliese (EVP Customer Care & Corporate Affairs, Hydro One)
    - Terry Young (VP Conservation and Corporate Relations, IESO)

- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). ENERGY is also represented on the Board of Trustees as a non-voting member.

How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.
- The levels of support provided through the Affordability Fund are relative to the household's electricity bill and net income.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***
- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

<u>ADMINISTRATION</u>

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- Hydro One has played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

- The TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.
- ENERGY's first report back to TB/MBC through the PRRT process was in October 2017 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.
    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

SCOPA Materials for DM.pdf

From:	Kitchen, Matthew (ENERGY)
To:	Edwards, Matthew (ENERGY)
Cc:	Sermat-Harding, Kaili (ENERGY)
Subject:	SCOPA Materials for DM
Date:	February 27, 2018 4:05:12 PM
Attachments:	2. AFT SCOPA Numbers At a Glance.docx 3. AFT SCOPA QAs - CRED.DOCX 1. AFT SCOPA BN.DOCX

Matt:

Attached are the SCOPA materials to support the DM at tomorrow's SCOPA:

1) Briefing Note
2) Numbers at a Glance
3) QAs

Matt

2. AFT SCOPA Numbers At a Glance_2.pdf

AFFORDABILTY FUND

NUMBERS AT A GLANCE for SCOPA

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, **approximately 4,280 applications** had been received.
- Eligible applicants are starting to receive benefits which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent **$1,709,724**, and earned interest on investment of **$98,969,457**.
    - Examples of activities covered under these costs include detailed program design, including stakeholder consultation, and processes established to support the administration of the Fund and
- As of February 23, 2018:
    - **60 (of about 65**) LDCs have indicated an interest in delivering the Affordability Fund program
    - **26** LDCs have signed Implementation Agreements with the Trust.
    - Approximately **36% of the $100M budget** has been allocated.

APPENDIX – INTERNAL DATA

NTD: The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 23-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)	1,186
Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	286
Sent to LDCs or Ready to be Sent to LDCs	2,810
Total Applications Processed	**4,282**

Metrics As of Feb 22, 2018*	**Amount**
Number of Participating LDCs	60
Number of Implementation Agreements Signed	26
Budget Allocations Received	22
Up-Front Allocations	$8 M
Dollars Allocated Overall	$32 M
Percent of $100M Allocated ($89.1M)**	36%

** $89.1M has been earmarked for the electricity distributors. The balance is intended for AFT's central admin and other costs to establish and oversee the Affordability Fund

Metrics:

Number of Participating LDCs: refers to those LDCs who have indicated they are interested to deliver the Affordability Fund program to their customers. The 60 LDCs represent a total base of 5,068,320 residential customers.

Number of Implementation Agreements Signed: The AFT can delegate an electricity distributor to deliver the Affordability Fund program through execution of an Implementation Agreement between the Trust and the distributor.

Percent of $100 M Allocated: This is the total of submitted and approved budget requests. In addition to implementation agreements, the distributors must submit to the AFT a budget request. Once approved distributors can receive an up-front allocation (to cover start-up/admin) and then recover costs on basis of invoicing. Distributors must establish a separate AFT account for all money which is to be received from the Trust. About $32 million of the budget has been allocated, $8 million of which will be provided up-front.

AFT LDC BUDGET ALLOCATION

- The following 22 LDCs have submitted budget allocations; 4 additional LDCs have signed Implementation Agreements but have yet to submit their budget allocations (see below).

Name of LDC	Up-Front	Total Allocation
Alectra Utilities	$3,027,500	$12,110,000
Algoma Power	$143,500	$574,000
Canadian Niagara Power Inc.	$144,500	$578,000
Chapleau Public Utilities Corporation	$61,570	$246,280
Cornwall Street Railway Light and Power	$369,438	$1,477,750
Energy+ Inc.	$464,060	$1,856,234
Entegrus Powerlines Inc.	$158,420	$633,680
Erie Thames Powerlines Corporation	$116,250	$465,000
Espanola Regional Hydro Distribution Corporation	$149,760	$599,040
Greater Sudbury Hydro Inc.	$607,393	$2,429,570
Hearst Power Distribution Company Limited	$63,130	$252,520
Kitchener-Wilmot Hydro Inc.	$310,225	$1,240,900
Midland Power Utility Corporation	$136,815	$547,260
Newmarket- Tay Power Distribution Ltd.	$379,620	$1,503,860
North Bay Hydro Distribution Limited	$305,153	$1,220,610
Northern Ontario Wires Inc.	$248,685	$994,740
Oakville Hydro Electricity Distribution Inc.	$134,312	$537,250
PUC Distribution Inc.	$618,498	$2,473,990
Renfrew Hydro Inc.	$137,625	$550,500
Welland Hydro-Electric System Corp.	$200,484	$801,936
West Coast Huron Energy Inc.	$52,705	$210,820
Westario Power Inc.	$185,125	$740,500
Total	$8,014,768	$32,044,440

The following four LDCs have signed Implementation Agreements and will submit their Budget Allocations in the near future:

- Centre Wellington Hydro;
- Kenora Hydro;
- Rideau St. Lawrence Distribution Inc.; and
- Waterloo North Hydro

AFT 2018 BUDGET Forecast (does not include allocations to LDCs)

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

- The 2018 projection is higher than that of 2017 as it accounts for the full year, includes the Parachute Work Management system, and cost centre charges (anticipated to increase with increased activity).

3. AFT SCOPA QAs - CRED_2.pdf

AFFORDABILTY FUND

QAs for SCOPA

1. **Why is the Affordability Fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the program?**

    - The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors effectively and expeditiously.

    - With approximately 65 electricity distributors in the province, having the Province enter into agreements with each distributor was not feasible.

    - The Trust structure establishes an independent entity with expertise from the community and electricity distributor sectors. This has enabled the Trust to leverage directly the knowledge and expertise of the sectors best positioned to target customers in need of assistance.
        - The Board of Trustees for the Trust includes representation from two community organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three distributors (Thunder Bay Hydro, Alectra and Hydro One). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

    - Administering the Fund through an independent Trust, as opposed to the IESO or OEB, enables the Fund to focus on its mandate of helping those who are in need, but not eligible for low-income conservation programs.

    - Hydro One has played an important role in facilitating the establishment of the Trust, and continues to play an administrative support role to the Board of Trustees in the implementation of the Affordability Fund.
        - They (Hydro One) are the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.

    - The IESO, which has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of the Home Assistance Program.

- In fact, in August 2017, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. How much control does the Province or Hydro One have over the Trust?

- The Affordability Fund Trust has been established as a non-controlled independent Trust to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements.

- The Trust is undertaking its duties on the basis of principles and guidance in the Transfer Payment Agreement between the Ministry of Energy and the Trust, and the Declaration of Trust, established by the Province.

- Trustees have discretion on how they implement the program.

- The Trust structure leverages the expertise of the electricity and community sectors. The composition of the Board of Trustees represents a geographical cross section of the Province.

- Individual members were recommended by an Advisory Committee, established by the Ministry of Energy. Members include:

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

- The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One representatives to ensure that Hydro One does not control voting decisions of the Trust.

  - Hydro One played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and delivery of the Affordability Fund.

- A Ministry of Energy representative sits on the Board as a non-voting Trustee and is the only government representative on the Board.

3. What accountability and reporting structures are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

- The Transfer Payment Agreement (TPA) between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectations of the Trust and the Trustees, including the delegation of program delivery to electricity distributors.

- The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

- The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

4. Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

  - In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:

    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015. We also know that over 58,000 customers were disconnected the following year (2016)

    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which

provides low-income support program.

- In January of 2017, Hydro One submitted a report to the Ministry of Energy titled "Addressing Affordability". The report outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs offered by their local distribution company

- For example, the existing Home Assistance Program (HAP) delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes.
    - HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes.
    - Measures installed though HAP include LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars.
    - Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

- To qualify for HAP participants are required to meet a mandated definition of low-income consumers (derived from Statistics Canada).

    - Not all customers who are in need meet the mandated definition and are therefore not eligible for HAP.

5. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

- The Affordability Fund was established through an independent Trust that was provided with an upfront amount of $100 million. The Trust is administering the Affordability Fund and disbursing funding to electricity distributors.

- Given the scope of the Fund, a firm upfront financial commitment was required before implementation as:
    - An upfront commitment enables the Trust to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow;

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas; and

- The Trust is helping to address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help customers get on a more sustainable path with their energy bills.

6. Explain how payments to the Trust and electricity distributors are made.

- The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, who in turn deliver energy efficiency measures to eligible customers.

- The amount of funding will vary across LDCs. LDCs submit budget allocations to the Affordability Fund based on their assessment of the potential number of eligible applicants, which would include consideration of factors such as the number of customers residing in electrically heated homes.

7. What are the anticipated overhead requirements for the Affordability Fund?

- The Trust is responsible for establishing the program's design, consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province.

- It is expected that the Trust will manage its administrative/overhead expenses in a manner that optimizes the funds available for eligible customers.

8. Were there other potential organizations that could have delivered the program?

- Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered lacking the necessary capacity to design and ensure effective and timely delivery of this type of program.

    - The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the

Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise in conservation and demand management programs and no direct channel or ties to electricity distributors.

- LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs.
    - LDCs and other electricity distributors such as Independent Power Authorities, who are also eligible for the Fund, are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

9. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

- The Affordability Fund is accessible to electricity distributors to deliver energy efficiency measures to Ontarians who are not eligible for the low-income Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The program is delivered in three steps.
    - Step 1 – the homeowner first contacts the Affordability Fund through the website or by phone to determine if their electricity bill is a burden;
    - Step 2 - an Affordability Fund representative will contact the homeowner for basic information such as household income and average electricity bill;
    - Step 3 – homeowner will receive their energy efficiency measures and upgrades.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - energy-saving light bulbs (LEDs);
    - power bars;
    - energy efficient window ACs;
    - refrigerators, freezers, dehumidifiers;
    - low-flow showerheads, hot water blankets;
    - pipe wrap and faucet aerators (in homes with electric water heating); and
    - programmable thermostats, weather stripping, insulation (in homes with electric heating).

- Additional Affordability Fund measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher.

- Cold climate air source heat pumps, which can cost from $7,000 to $13,000, are also an eligible measure under the Fund for homes that are electrically-heated.

- The types of home upgrades and total cost of measures a customer will be able to receive from the Affordability Fund are calculated by the household's level of electricity burden.

- A household's level of energy burden, known as the *Electricity Affordability Burden (EAB)*, measures the strain energy costs place on that household. The EAB is calculated by dividing a household total electricity charges by the net household income.

- Depending on the level of their EAB, a household will qualify for one of three levels of measures:
    - *Level 1:* A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators). LDCs are also expected to conduct targeted outreach to identify potential customers.
    - *Level 2:* Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - *Level 3:* Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: range of $500-$15,000 per customer is confidential and has not been made public)***

10. What is an Electricity Affordability Burden?

- Fund beneficiaries will be members of households whose electricity costs place a strain on the family. This strain is captured in a metric known as the Electricity Affordability Burden (EAB).

- The EAB is calculated by dividing the total electricity charges by the net household income. This total electricity charges include the installment and fees expected of the account holder over the period under consideration. Installment payments, bills, and fees are assessed over the same period as the net household income.

  EAB = (Electricity Bills + Installment Payment + Fees) / Net Household Income

11. What is the eligibility criteria for the program?

- The Affordability Fund is accessible to Ontarians who are not eligible for the low-income Home Assistance Program (HAP) and who are unable to undertake energy efficiency improvements without support.

- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

- The residence must be located in the Province of Ontario and be used exclusively for residential occupancy or be a multi-unit residence, with the Beneficiary being responsible for the direct payment of their electricity usage and costs.

- The level of support available to eligible households under the Affordability Fund program is based on the electricity affordability burden.

12. **Would tenants be eligible?**

- The Affordability Fund is targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills.

- Tenants who pay their electricity bills could be among the eligible customers identified by distributors as needing help.

- Eligible customers will be identified by distributors and could include those in frequent arrears or facing disconnection.

13. How soon will eligible customers be able to start benefiting from the Fund?

- Eligible customers are beginning to receive energy efficiency measures. LDCs are rolling out the Affordability Fund over the coming months. As of February 23, 2018, 26 LDCs have signed implementation agreements with the Affordability Fund; with 22 of the 26 also submitting their budget allocations.

14. How much can a customer who takes advantage of the Fund expect to save?

- Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home.

- Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year.

- In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

15. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

- The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid.

16. Will the program be delivered province-wide?

- Yes, the program is available province-wide.

- The Affordability Fund Trust is accessible to all electricity distributors in Ontario, to provide energy efficiency upgrades to eligible customers.

- Where a distributor cannot or does not wish to provide the program, Hydro One will deliver in the program in the LDC's service territory on behalf of the Trust.

17. How will the Affordability Fund program be marketed?

- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

- Given the targeted nature of the program, a broad province-wide marketing campaign would not be an effective way to spend marketing funds.

- It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers. Eligible customers will be identified by electricity distributors.

18. How will you evaluate the success of the Affordability Fund?

- Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation.

- The Affordability Fund Trust is required to provide the Ministry of Energy with details on a quarterly and annual basis. Information required includes:
    - Amounts disbursed by the AFT to Electricity Distributors, and in aggregate;
    - Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor;
    - Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT; and
    - Electricity Distributor and customer feedback and lessons learned.

19. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

LINKAGE QUESTIONS

20. How does the Affordability Fund augment existing rate mitigation and conservation initiatives?

- Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

- Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

- To help electricity consumers across the province achieve cost savings, the government implemented the Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

21. How will the programs compare with the existing Home Assistance Program?

- The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is providing similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- The Fund includes additional measures such as block heater timer, solar attic fan, and air source heat pumps. Since some measures may have greater impact in certain areas of the province, e.g. block heater timer, air source heat pump, LDCs have the flexibility to select from a list of available measures that can maximize the energy savings opportunities for their customers.

- Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure while eligibility for the Affordability Fund is based on the electricity affordability burden.

    - The electricity affordability burden is the ratio of the utility ‘asked to pay amount’ divided by the ‘net household income’.
    - Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

- The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from electricity rates.

22. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

- To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

  Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.
- Individuals who qualify for the Low-Income Energy Assistance Program (LEAP) and the Ontario electricity Support Program (OESP) are also not eligible for the Affordability Fund (they are eligible for HAP).

- The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

23. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

- A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure

investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

- On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

24. What happens to unspent funds?

- It is expected that the funds through the Fund will be deployed within two years of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

- The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustees would identify one or more Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

25. Does the Ministry have the ability to claw-back funds?

- The TPA includes claw-back provisions to recover funds not used for the intended purposes.

1. AFT SCOPA BN_2.pdf

AFFORDABILTY FUND

Briefing Note for SCOPA

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which provides oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.

- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.

- The table below outlines the Board of Trustees for the Affordability Fund Trust.

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister) (non-voting)

- Local utilities are rolling out the Affordability Fund over the coming months, and in some parts of Ontario eligible customers have started receiving benefits.

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.

    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

- An interim Advisory Committee was established by the Ministry of Energy to make recommendations to the Original Trustee regarding the appointments of the Board of Trustees. The Committee acted independently to appoint the Board of Trustees. Committee members were selected because they possessed relevant knowledge and experience to identify and evaluate suitable replacement Trustees. Advisory Committee members were:

    - Brian Bentz (CEO, Alecta Utirlities)
    - Bryce Conrad (CEO, Hydro Ottawa)
    - Robert Mace (CEO, Thunder Bay Hydro)
    - Ferio Pugliese (EVP Customer Care & Corporate Affairs, Hydro One)
    - Terry Young (VP Conservation and Corporate Relations, IESO)

- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). ENERGY is also represented on the Board of Trustees as a non-voting member.

How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.
- The levels of support provided through the Affordability Fund are relative to the household's electricity bill and net income.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***
- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

<u>ADMINISTRATION</u>

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- Hydro One has played an important role in facilitating the establishment of the Trust, and is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

- The TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.
- ENERGY's first report back to TB/MBC through the PRRT process was in October 2017 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.
    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.
- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.
- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

SCOPA QAs - For MOF_ENER Review.pdf

From:	Hendy, Adam (ENERGY)
To:	Cox, Hilary (ENERGY); Kitchen, Matthew (ENERGY)
Cc:	@ENERGY-COMM-Issues_and_MediaRelations; Edwards, Matthew (ENERGY); Nucciarone, Michael (ENERGY); Perkins, Michael (ENERGY); Whytock, John (ENERGY); Lyon, Sam (ENERGY)
Subject:	SCOPA QAs - For MOF/ENER Review
Date:	February 15, 2018 12:07:15 PM
Attachments:	SCOPA QAs_FOR ENERGY.docx
Importance:	High

Hi Hilary and Matt,

TBS has asked to review their attached QAs for SCOPA. In the doc they have flagged a few areas for Energy input, which I have answered using approved messaging from our materials.

Hoping CRED and ESP can take a look at this ASAP and confirm if my additions are suitable.

Thanks for this, and sorry for the rush.
Adam

From: Tharani, Alisha (TBS)
Sent: February-15-18 11:39 AM
To: Spadoni, Peter (MOF); Hendy, Adam (ENERGY)
Cc: Miller, Amanda (TBS)
Subject: SCOPA QAs - For MOF/ENER Review

Hi Peter, Adam,

We have recently received feedback from our program area regarding questions that were included in our TBS QA document that may be better suited for Finance and Energy.

See attached.

Wanted to give you a head's up that though the way some of the questions may be worded, the response is better suited to come from your ministry/agencies. We have included the response that we had – but of course it will need to be vetted by your respective program areas.

Please let us know if you have any issues with how we've structured the handoff. If it's possible to get your feedback ASAP, it would be very much appreciated.

Thank you,

Alisha

SCOPA QAs_FOR ENERGY_2.pdf

SCOPA QAs – ENERGY

Flagged by TBS for Energy's Review:

1. **Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?**
   TO CONFIRM whether IESO or TBS should answer this question.

   Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

2. **Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?**
   TO CONFIRM whether IESO or TBS should answer this question.

   The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015)

Commented [TA(1]: Should IESO or TBS answer this question?

Commented [TA(2]: Should IESO or TBS answer this question?

in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Ontario Fair Hydro Plan

AG Recommendation #3: OFHP

1. **The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?**

   In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

   Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

   Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

   I will pass it over to my colleagues at the Ministry of Energy to provide further details.

2. **How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance**

Commented [CV3]: I think you will want Energy to add content to this question re: how the Energy sector is financed (e.g. at market rates vs. the provincial borrowing rate).

Commented [TA(4]: Have left initial key messages for TBS. Will flag for Energy that this question would be passed to them.

55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

I will pass it over to my colleagues at the Ministry of Energy, who can provide further details on this matter.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Commented [CV5]: Energy needs to update, as OPG Trust has placed its first tranche of debt in the market.

Commented [TA(6]: Have left initial key messages for TBS reference and will flag for Energy that this question will be passed to them to speak to the fact that OPG Trust has placed its first tranche of debt in the market.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

Ontario Fair Hydro Plan

AG Recommendation #9: Arm's Length Trusts

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

For more information about why a trust for the Affordability Fund, I will pass it over to Deputy Imbrogno, who will be able to provide further details to the Committee.

Commented [CV7]: This question may be better split into two (a) the general use of a trust which TBS would answer and (b) why a trust for the low income affordability fund which Energy would answer.

Commented [TA(8]: Have included handover to Energy to speak to the Affordability Fund.

SCOPA QAs_MOE_20180124 v1_SH.pdf

From:	Rehob, James (ENERGY)
To:	Thouin, Alena (ENERGY)
Cc:	Huang, Jackson (MEDG/MRIS)
Subject:	SCOPA QAs_MOE_20180124 v1_SH
Date:	January 29, 2018 10:48:00 PM
Attachments:	SCOPA QAs_MOE_20180124 v1_SH.docx

Confidential/Solicitor & Client Privileged

January 29, 2018

Hi, Alena. Attached, please find my comments and few suggested revisions to the proposed Q&A re the AG/OFHPA.

I hope they are useful. I do want to discuss one aspect of the proposed responseswith you, when your time permits.

Best,

James

James P. H. Rehob
Senior Counsel
Ministry of the Attorney General
Legal Services Branch
MAG Civil Law Division
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SCOPA QAs_MOE_20180124 v1_SH_4.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

DRAFT

IESO ACCOUNTING

Commented [HS(1]: IESO to review and fact check

Add additional Q/As as IESO thinks is necessary

AG Recommendation #2: IESO Market Accounts

- IESO's accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

Commented [RJ(2]: NTD-LSB: This should be verified by SNAP with IESO. It seems correct but can't confirm.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in the IESO's annual report which was published online in March 2017.

Further, this accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

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We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of OFHP, the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

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- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report. *[ntd-jpr: Consider adding something a bit more substantive, such as "….and respects the Auditor General's independence.]*
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The Province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change ~~was~~ made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

The Government's position is that it was open for the IESO to chose rate regulated accounting, subject to the approval of Treasury Board. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

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Commented [RJ(3]: My understanding is that TBS must approve the final selection of the accounting method chosen by a Government-established entity, such as the IESO, OPG and the OEB. Must verify with TBS (or IESO), however.

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In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.
This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator." This reference is ~~misleading~~ somewhat incomplete as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

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Commented [RJ(4]: It is not recommended to provide Answers (responses) from the Minister which criticize an Officer of the Legislature. That is very concerning.

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IESO Response:

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

Commented [HS(5]: Ministry of Energy to provide Q&As related to the policy rationale for OFHP

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.
- The Government's? professional staff have~~s~~ appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

Commented [RJ(6]: I gather that this refers to the OFHP broadly, whereby elements of the bill such as OESP and a portion of RRRP were removed from the rate-base and transferred to the tax-base. Otherwise, this wouldn't make sense for explaining the refinancing of GA over several generations of ratepayers (the main part of the OFHP).

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system since 2003, but these investments have necessarily led to higher bills.

Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

Commented [RJ(7]: Transparency and completeness would militate in favour of explaining how clean energy adjustments would arise at some point years later to recover the amounts borrowed to fund the OFHP GA refinancing. Please consider.

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a cost-recovery mechanism that recovers certain electricity system costs (or regulatory charges), such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) in accordance with the *Electricity Act, 1998* and its Regulations, and is based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation, load management and energy efficiency programs ~~in~~ across the province.

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GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

DRAFT

need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to ~~plan~~ design an ~~structure~~approach, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

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Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised downward substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Commented [RJ(8]: I think it might be wise to explain why the original estimate was $8 billion off? What changed between March, 2017 and Jan-Feb, 2018? For example, below we have *"Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts."* And still later, "*The government estimates of total interest cost also decreased from $25 billion[1] to less than $19 billion[1]*."
"

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation

DRAFT

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised downward substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty

[9] Ontario Power Generation
[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*

DRAFT

year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

Commented [RJ(9]: Consider whether that's true: once a borrowing tranche has been launched, the costs (CEAs) due are fixed and must be recovered. Gaining system efficiencies would not change the cost of the ongoing borrowing and refinancing activities which are tied to GA amounts as estimated, and which form the basis of the OFHPA's Fair Allocation Amount as well as OPG's/FSM'ss Financing Plan.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised downward substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that f~~F~~uture generations will be paying their fair share for a system they will be benefiting from in their lifetime. Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation which paved the way for more renewable generation.

Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

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Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

~~No.~~ GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

Commented [RJ(10]: Privileged & Confidential Legal Advice Happy to discuss but recommend avoiding a direct, erroneous answer.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

Commented [HS(11]: CRED to provide Q&As with respect to the Affordability Fund

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

Commented [HS(12]: LSB should review and fact check

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 13, 2017, the Ministry has provided 13,212 emails and attachments to the OAG's office.

Q. How much money did the Ministry spend on lawyers?

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The Ministry does not intend to spend more than $60,000 on this request. Although the retainer agreement includes a cap of up to $500,000, as of September 21, 2017, only $41,775.75 has actually been spent.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry has been regularly providing AG batches of responsive documents.

Commented [HA(13]: May be updated in tech briefing QA

Re-Design of Hydro Bills

Commented [HS(14]: SNAP to provide Q&As with respect to this section

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons between redesigned and previous bills will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry has engaged with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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From:	Christie, Tim (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Cayley, Daniel (ENERGY); Lightbody, Ava (ENERGY)
Subject:	SCOPA QAs_MOE_20180129 - EPE-ADM
Date:	February 2, 2018 5:17:18 PM
Attachments:	SCOPA QAs_MOE_20180129 - EPE-ADM.DOCX

Hilary, here's the bigger QA package.

SCOPA QAs_MOE_20180129 - EPE-ADM_1.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

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The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken.

First, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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In developing the policy to refinance the ~~Global Adjustment (~~GA~~)~~, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Commented [AL1]: Could be removed

Second, the province has introduced rate relief programs and expanded existing ones.

In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.

~~GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.~~

Commented [AL2]: Covered above

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

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Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer

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A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

[5] Ministry of Energy
[6] Ministry of Energy
[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

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Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime. ~~Not only will they benefit from a reliable electricity system, but also from cleaner air resulting from the elimination of coal-fired generation.~~

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, the following initiatives are being undertaken.

[13] Ministry of Energy
[14] Ministry of Energy
[15] Ministry of Energy
[16] Ministry of Energy

DRAFT

First, a portion of Global Adjustment (GA) costs is being refinanced to reduce pressure on today's electricity consumers. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Commented [AL3]: Could remove if there is a desire to be more succinct, although these paragraphs allow the response to speak to the rate base issue.

Second, the province has introduced rate relief programs and expanded existing ones.

In addition, a number of important programs such as the Ontario Electricity Support Program (OESP) and the Rural or Remote Rate Protection (RRRP) program are now funded from provincial revenues instead of by electricity consumers (i.e., from the rate-base).

The province has also launched a new Affordability Fund, enhanced the existing OESP, and is providing on-reserve First Nations with a delivery credit.

~~Ontario's Fair Hydro Plan (OFHP) acts much like taking out a new mortgage – providing much-needed relief now by spreading costs across the life of our assets. Current ratepayers are paying less now, and future ratepayers will in turn help to pay for their~~

~~fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.~~

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

DRAFT

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).
- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.

DRAFT

- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

DRAFT

- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

DRAFT

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

DRAFT

PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

DRAFT

PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

DRAFT

DRAFT

SCOPA Report Posted_ Public Accounts of the Pro...(1).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Berry, James (ENERGY); Campbell, David (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	SCOPA Report Posted: Public Accounts of the Province (Ch 2 of AG"s 2017 Annual Report)
Date:	May 3, 2018 4:12:10 PM
Attachments:	Public Accounts of the Province (Final) English.pdf

---

Hi James, David,

The Standing Committee on Public Accounts has tabled their review of Chapter 2, Public Accounts of the Province, of the Auditor General's 2017 Annual Report, attached.

The Committee's report provides two recommendations:

1. Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.

2. The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.

They have also tabled their review of Chapter 3, which can be found here:

http://www.ontla.on.ca/web/committee-proceedings/committee_business_reports.do?locale=en&BillID=&CommID=139&BusinessType=Other&detailPage=reports

Thanks,
Mike

Public Accounts of the Province (Final) Englis_1.pdf

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

PUBLIC ACCOUNTS OF THE PROVINCE

(CHAPTER 2, 2017 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL OF ONTARIO)

3rd Session, 41st Parliament
67 Elizabeth II

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Legislative Assembly of Ontario

Assemblée législative de l'Ontario

The Honourable Dave Levac, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Ernie Hardeman, MPP
Chair of the Committee

Queen's Park
May 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS
MEMBERSHIP LIST

3rd Session, 41st Parliament

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KATCH KOCH
Clerk of the Committee

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INTRODUCTION

On February 28, 2018, the Standing Committee on Public Accounts held public hearings on the audit (Chapter 2, 2017 *Annual Report* of the Auditor General of Ontario) of the Public Accounts of the Province administered by the Ministry of Finance and the Treasury Board Secretariat.

The Committee endorses the Auditor's findings and recommendations, and presents its own findings, views, and recommendations in this report. The Committee requests that the Ministry provide the Clerk of the Committee with written responses to the recommendations within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified.

ACKNOWLEDGEMENTS

The Committee extends its appreciation to officials from the Treasury Board Secretariat, the Ministry of Finance, the Ministry of Energy, and the Cabinet Office. The Committee also acknowledges the assistance provided during the hearings and report-writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and staff in the Legislative Research Service.

BACKGROUND

Ontario's Public Accounts for the fiscal year ending March 31, 2017, were prepared under the direction of the Minister of Finance (as required by the *Financial Administration Act*) and the President of the Treasury Board. The Public Accounts consist of the Province's annual report, including the consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets, and maintain proper records.

AUDIT OBJECTIVES AND SCOPE

As required under the *Auditor General Act*, the Office of the Auditor General of Ontario, as the legislature's Auditor, audits the consolidated financial statements, with the objective of providing reasonable assurance that the statements are free of significant errors or omissions and are fairly presented in accordance with appropriate generally accepted accounting principles. The consolidated financial statements, along with the independent Auditor's Report, are included in the Province's annual report.

In 2017, for the second consecutive year, the Auditor General issued a qualified opinion on the Province's consolidated financial statements.

MAIN POINTS OF AUDIT

The Auditor General stated that the consolidated financial statements for 2016/17 are fairly presented with two exceptions:

- The government overstated the net pension assets relating to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). As a result, the Province's net debt and accumulated deficit at March 31, 2017, is understated by $12.429 billion and the 2016/17 annual deficit is understated by $1.444 billion. (Net debt is the difference between the government's total liabilities and its financial assets.)

- The government inappropriately recognized and consolidated market account assets and liabilities relating to transactions between power generators and distributors managed by the Independent Electricity System Operator (IESO). As a result, IESO's Other Assets and Other Liabilities at March 31, 2017, are overstated by $1.652 billion.

The Auditor General stated that the Province's accounting treatments in these two cases did not conform to Canadian Public Sector Accounting Standards (PSAS).

The Auditor's report expressed concern that the proposed accounting treatment for the Fair Hydro Plan could have a material impact on the Province's annual financial results for the year ended March 31, 2018, and could become a significant concern to the Auditor's Office.

The Auditor General continues to express concern regarding the Province's growing debt burden. The Auditor's report stated that after adjusting for the net pension assets of the OTPP and the OPSEUPP and the expected costs of the Fair Hydro Plan, the Province will continue to incur annual deficits, and net debt will continue to increase as the government borrows to finance its operations.

The audit expressed concern that the Province's March 31, 2017, consolidated financial statements recognize rate-regulated assets, which the audit stated is not permitted when applying PSAS to government financial statements. The audit noted that this view is supported by many public-sector accounting experts in Canada, including Auditors General across Canada. (Rate-regulated accounting was developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated by an independent regulator.) The audit concluded that this did not cause a material misstatement in the 2016/17 consolidated financial statements but stressed that it could do so in the future.

The Auditor General also noted that the government had not shared, on a timely basis, the work performed by external advisors in developing an accounting/financial design for the Fair Hydro Plan, and that delays were experienced in receiving communication from the component auditor of the IESO. The Auditor General recommended the government communicate if and when it would file a regulation that would enable the Auditor General to review the pre-election report. The Auditor encouraged the Ministry of Finance and

Treasury Board Secretariat to ensure that her Office has sufficient time to review and comment on the pre-election report.

O. Reg. 41/18, made in February 2018, stipulates that the deadline for the release of the pre-election report is seven days after the day on which the Minister of Finance moves the Budget motion in 2018.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

A number of issues were raised in the audit and before the Committee. The Committee considers the issues below to be of particular importance.

The Treasury Board Secretariat (TBS) stated the Province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). Treasury Board representatives told the Committee that public sector accounting standards are principle-based and not a prescriptive set of rules. Further, the Committee heard that the PSAS require the application of professional judgement. The Treasury Board said it works closely with the Office of the Auditor General on public accounts.

The Treasury Board said it made several accounting changes in 2016/17, including accounting for market accounts and adopting the rate-regulated accounting used by the Independent Electricity System Operator (IESO), and reporting pension assets for jointly sponsored pension plans. The Treasury Board stated that if professional accountants in the public service do not agree with the Auditor General, it is "not as simple as agreeing to accept the Auditor General's interpretation."

The Committee asked if the Treasury Board, Ministries, or the IESO sought the Auditor General's advice prior to drafting the legislation for the Fair Hydro Plan. The Treasury Board and the IESO responded that the Auditor's feedback was sought after the policy decision was made. The Treasury Board indicated that it equipped itself to execute the government's preferred policy direction to the best of its abilities. The audit noted the government did not inform the Auditor's Office of its engagements with external advisors until after the Office became aware that significant discussions were being held on matters related to the Fair Hydro Plan.

The Committee asked if the Treasury Board and the Ministries' staff gave the Ministries and the Premier their best impartial advice regarding the Fair Hydro Plan and rate-regulated accounting. The Committee was told that it is the role of the public service to provide the best objective advice to the elected government and to comply with codes of professional conduct. The Ministry of Energy stated that their advice was given in accordance with the government's policy direction to provide rate relief for Ontario consumers by shifting the costs of social programs from the rate base to the tax base.

The Committee asked why the IESO made the decision to include market assets in 2017 and not five years earlier. The IESO said it had previously considered making the change to rate-regulated accounting when the Ontario Power Authority (OPA) and the IESO merged. The Committee asked if the Ministry of Energy directed the IESO to start using rate-regulated accounting. The IESO

responded that it was its own decision to adopt rate-regulated accounting. The Controller for the Province of Ontario noted earlier that she asked the IESO to consider whether or not rate-regulated accounting was appropriate accounting treatment when she first learnt that the IESO had a second set of market accounts that were not reflected in the IESO's financial statements. The President and CEO of the IESO stated that rate-regulated accounting has the added advantage of giving better visibility to the $17 billion from market activity that happens on an annual basis, and is in line with six of eight independent system operators across North America that also use rate-regulated accounting.

The IESO told the Committee that its financial statements are the purview and ownership of the management of the IESO, and that the IESO's policies are agreed to by their external advisors, KPMG. The Committee questioned if the IESO can have sole ownership and purview of its financial statements if it is a subordinate body to the Legislature. The Committee then asked if the Province's agencies, boards, commissions and crown corporations are independent from the Auditor General's considerations. The Ministry of Finance responded that these entities have their own governance and their own boards from which they need approval.

The IESO also indicated that PSAS neither explicitly permit nor prohibit the recognition, measurement, presentation, or disclosure of rate-regulated activities. The Auditor's report stated that "the silence of Canadian PSAS on rate-regulated accounting means that rate-regulated accounting is not permitted." As noted earlier, the Auditor's report added, "This view is and has been supported by many public-sector accounting experts in Canada including Auditors General across Canada, private accounting firms, and others, such as the recently retired Director of the Public Sector Accounting Standards Board, who have extensive experience in developing and applying Canadian PSAS."

The Committee pressed the IESO if it could follow the Auditor General's second recommendation to remove Market Accounts. The IESO noted there is a "disagreement" between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting is the most appropriate way of representing its financials. The audit noted that the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province's consolidated financial statements.

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

The Standing Committee on Public Accounts recommends that:

1. **Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.**

2. **The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.**

APPENDIX – DISSENTING OPINION OF THE MEMBERS OF THE PROGRESSIVE CONSERVATIVE PARTY

Dissenting Opinion of the Members of the Progressive Conservative Party.

The inclusion of a dissenting opinion in a majority report at Public Accounts Committee is a rare occurrence, and is normally only pursued as a symptomatic response to a failure of one or more parties to abide by the generally accepted principles that guide the committee to work effectively and in a non-partisan fashion.

The first of these principles is a clear understanding of the Auditor General's role, and a deference to the impartiality of their office. A core tenant of the Public Accounts Committee is that its members recognize that the opinions and recommendations put forward by the Auditor General are independent and reputable. Proper consideration is meant to be given in response to the Auditor General's findings, and any conflicting conclusions by the committee need to concretely justified and discussed openly.

The second principle is one of constraining partisanship, a concept where in members of the committee are strong and secure in their ability to be non-partisan, and able to collaboratively construct solutions and recommendations.

If one or both of these principles is not respected, than the integrity of the committee, and its reports, come in to question.

In the case of this report, the committee has not addressed the Auditor General's concerns in a manner that could be at all considered effective, particularly in regard to the issues arising from the Government's use of external advisors and accounting firms when developing accounting and financial structures and positions. Concern was raised in the Auditor's report on how the activities of these external advisors were not brought to the attention of their office until that information was specifically requested. These issues were identified as being related to other significant concerns in the report, including with those involving the IESO and the inappropriate accounting of market account assets and liabilities.

Recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:

- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;
- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

The implementation of effective recommendations such as these was frustrated by the government's lack of motivation or interest to engage in thoughtful discussion on these issues, which is contrary to the principles and objectives of the committee.

As such no other option was left but to officially state on the record, through a dissenting report, that due to partisanship throughout the committee process this report does not fulfil its responsibility to provide effective and non-partisan recommendations to the government.

SCOPA Report Posted_ Public Accounts of the Pro...(2).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	SCOPA Report Posted: Public Accounts of the Province (Ch 2 of AG"s 2017 Annual Report)
Date:	May 3, 2018 4:13:11 PM
Attachments:	Public Accounts of the Province (Final) English.pdf

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Passing along, the Standing Committee on Public Accounts has tabled their review of Chapter 2, Public Accounts of the Province, of the Auditor General's 2017 Annual Report, attached.

The Committee's report provides two recommendations:

> 1. Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.
>
> 2. The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.

On page 2 of the attached, the committee requests TBS and MOF have 120 days to respond to the recommendations, similar to Chapter 3.

Thanks,
Michael

Public Accounts of the Province (Final) Englis_2.pdf

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

PUBLIC ACCOUNTS OF THE PROVINCE

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Legislative Assembly of Ontario

Assemblée législative de l'Ontario

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Speaker of the Legislative Assembly

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Ernie Hardeman, MPP
Chair of the Committee

Queen's Park
May 2018

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3rd Session, 41st Parliament

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INTRODUCTION

On February 28, 2018, the Standing Committee on Public Accounts held public hearings on the audit (Chapter 2, 2017 *Annual Report* of the Auditor General of Ontario) of the Public Accounts of the Province administered by the Ministry of Finance and the Treasury Board Secretariat.

The Committee endorses the Auditor's findings and recommendations, and presents its own findings, views, and recommendations in this report. The Committee requests that the Ministry provide the Clerk of the Committee with written responses to the recommendations within 120 calendar days of the tabling of this report with the Speaker of the Legislative Assembly, unless otherwise specified.

ACKNOWLEDGEMENTS

The Committee extends its appreciation to officials from the Treasury Board Secretariat, the Ministry of Finance, the Ministry of Energy, and the Cabinet Office. The Committee also acknowledges the assistance provided during the hearings and report-writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and staff in the Legislative Research Service.

BACKGROUND

Ontario's Public Accounts for the fiscal year ending March 31, 2017, were prepared under the direction of the Minister of Finance (as required by the *Financial Administration Act*) and the President of the Treasury Board. The Public Accounts consist of the Province's annual report, including the consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets, and maintain proper records.

AUDIT OBJECTIVES AND SCOPE

As required under the *Auditor General Act*, the Office of the Auditor General of Ontario, as the legislature's Auditor, audits the consolidated financial statements, with the objective of providing reasonable assurance that the statements are free of significant errors or omissions and are fairly presented in accordance with appropriate generally accepted accounting principles. The consolidated financial statements, along with the independent Auditor's Report, are included in the Province's annual report.

In 2017, for the second consecutive year, the Auditor General issued a qualified opinion on the Province's consolidated financial statements.

MAIN POINTS OF AUDIT

The Auditor General stated that the consolidated financial statements for 2016/17 are fairly presented with two exceptions:

- The government overstated the net pension assets relating to the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). As a result, the Province's net debt and accumulated deficit at March 31, 2017, is understated by $12.429 billion and the 2016/17 annual deficit is understated by $1.444 billion. (Net debt is the difference between the government's total liabilities and its financial assets.)

- The government inappropriately recognized and consolidated market account assets and liabilities relating to transactions between power generators and distributors managed by the Independent Electricity System Operator (IESO). As a result, IESO's Other Assets and Other Liabilities at March 31, 2017, are overstated by $1.652 billion.

The Auditor General stated that the Province's accounting treatments in these two cases did not conform to Canadian Public Sector Accounting Standards (PSAS).

The Auditor's report expressed concern that the proposed accounting treatment for the Fair Hydro Plan could have a material impact on the Province's annual financial results for the year ended March 31, 2018, and could become a significant concern to the Auditor's Office.

The Auditor General continues to express concern regarding the Province's growing debt burden. The Auditor's report stated that after adjusting for the net pension assets of the OTPP and the OPSEUPP and the expected costs of the Fair Hydro Plan, the Province will continue to incur annual deficits, and net debt will continue to increase as the government borrows to finance its operations.

The audit expressed concern that the Province's March 31, 2017, consolidated financial statements recognize rate-regulated assets, which the audit stated is not permitted when applying PSAS to government financial statements. The audit noted that this view is supported by many public-sector accounting experts in Canada, including Auditors General across Canada. (Rate-regulated accounting was developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated by an independent regulator.) The audit concluded that this did not cause a material misstatement in the 2016/17 consolidated financial statements but stressed that it could do so in the future.

The Auditor General also noted that the government had not shared, on a timely basis, the work performed by external advisors in developing an accounting/financial design for the Fair Hydro Plan, and that delays were experienced in receiving communication from the component auditor of the IESO. The Auditor General recommended the government communicate if and when it would file a regulation that would enable the Auditor General to review the pre-election report. The Auditor encouraged the Ministry of Finance and

Treasury Board Secretariat to ensure that her Office has sufficient time to review and comment on the pre-election report.

O. Reg. 41/18, made in February 2018, stipulates that the deadline for the release of the pre-election report is seven days after the day on which the Minister of Finance moves the Budget motion in 2018.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

A number of issues were raised in the audit and before the Committee. The Committee considers the issues below to be of particular importance.

The Treasury Board Secretariat (TBS) stated the Province's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). Treasury Board representatives told the Committee that public sector accounting standards are principle-based and not a prescriptive set of rules. Further, the Committee heard that the PSAS require the application of professional judgement. The Treasury Board said it works closely with the Office of the Auditor General on public accounts.

The Treasury Board said it made several accounting changes in 2016/17, including accounting for market accounts and adopting the rate-regulated accounting used by the Independent Electricity System Operator (IESO), and reporting pension assets for jointly sponsored pension plans. The Treasury Board stated that if professional accountants in the public service do not agree with the Auditor General, it is "not as simple as agreeing to accept the Auditor General's interpretation."

The Committee asked if the Treasury Board, Ministries, or the IESO sought the Auditor General's advice prior to drafting the legislation for the Fair Hydro Plan. The Treasury Board and the IESO responded that the Auditor's feedback was sought after the policy decision was made. The Treasury Board indicated that it equipped itself to execute the government's preferred policy direction to the best of its abilities. The audit noted the government did not inform the Auditor's Office of its engagements with external advisors until after the Office became aware that significant discussions were being held on matters related to the Fair Hydro Plan.

The Committee asked if the Treasury Board and the Ministries' staff gave the Ministries and the Premier their best impartial advice regarding the Fair Hydro Plan and rate-regulated accounting. The Committee was told that it is the role of the public service to provide the best objective advice to the elected government and to comply with codes of professional conduct. The Ministry of Energy stated that their advice was given in accordance with the government's policy direction to provide rate relief for Ontario consumers by shifting the costs of social programs from the rate base to the tax base.

The Committee asked why the IESO made the decision to include market assets in 2017 and not five years earlier. The IESO said it had previously considered making the change to rate-regulated accounting when the Ontario Power Authority (OPA) and the IESO merged. The Committee asked if the Ministry of Energy directed the IESO to start using rate-regulated accounting. The IESO

responded that it was its own decision to adopt rate-regulated accounting. The Controller for the Province of Ontario noted earlier that she asked the IESO to consider whether or not rate-regulated accounting was appropriate accounting treatment when she first learnt that the IESO had a second set of market accounts that were not reflected in the IESO's financial statements. The President and CEO of the IESO stated that rate-regulated accounting has the added advantage of giving better visibility to the $17 billion from market activity that happens on an annual basis, and is in line with six of eight independent system operators across North America that also use rate-regulated accounting.

The IESO told the Committee that its financial statements are the purview and ownership of the management of the IESO, and that the IESO's policies are agreed to by their external advisors, KPMG. The Committee questioned if the IESO can have sole ownership and purview of its financial statements if it is a subordinate body to the Legislature. The Committee then asked if the Province's agencies, boards, commissions and crown corporations are independent from the Auditor General's considerations. The Ministry of Finance responded that these entities have their own governance and their own boards from which they need approval.

The IESO also indicated that PSAS neither explicitly permit nor prohibit the recognition, measurement, presentation, or disclosure of rate-regulated activities. The Auditor's report stated that "the silence of Canadian PSAS on rate-regulated accounting means that rate-regulated accounting is not permitted." As noted earlier, the Auditor's report added, "This view is and has been supported by many public-sector accounting experts in Canada including Auditors General across Canada, private accounting firms, and others, such as the recently retired Director of the Public Sector Accounting Standards Board, who have extensive experience in developing and applying Canadian PSAS."

The Committee pressed the IESO if it could follow the Auditor General's second recommendation to remove Market Accounts. The IESO noted there is a "disagreement" between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting is the most appropriate way of representing its financials. The audit noted that the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province's consolidated financial statements.

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

The Standing Committee on Public Accounts recommends that:

1. **Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.**

2. **The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.**

APPENDIX – DISSENTING OPINION OF THE MEMBERS OF THE PROGRESSIVE CONSERVATIVE PARTY

Dissenting Opinion of the Members of the Progressive Conservative Party.

The inclusion of a dissenting opinion in a majority report at Public Accounts Committee is a rare occurrence, and is normally only pursued as a symptomatic response to a failure of one or more parties to abide by the generally accepted principles that guide the committee to work effectively and in a non-partisan fashion.

The first of these principles is a clear understanding of the Auditor General's role, and a deference to the impartiality of their office. A core tenant of the Public Accounts Committee is that its members recognize that the opinions and recommendations put forward by the Auditor General are independent and reputable. Proper consideration is meant to be given in response to the Auditor General's findings, and any conflicting conclusions by the committee need to concretely justified and discussed openly.

The second principle is one of constraining partisanship, a concept where in members of the committee are strong and secure in their ability to be non-partisan, and able to collaboratively construct solutions and recommendations.

If one or both of these principles is not respected, than the integrity of the committee, and its reports, come in to question.

In the case of this report, the committee has not addressed the Auditor General's concerns in a manner that could be at all considered effective, particularly in regard to the issues arising from the Government's use of external advisors and accounting firms when developing accounting and financial structures and positions. Concern was raised in the Auditor's report on how the activities of these external advisors were not brought to the attention of their office until that information was specifically requested. These issues were identified as being related to other significant concerns in the report, including with those involving the IESO and the inappropriate accounting of market account assets and liabilities.

Recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:

- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;
- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

The implementation of effective recommendations such as these was frustrated by the government's lack of motivation or interest to engage in thoughtful discussion on these issues, which is contrary to the principles and objectives of the committee.

As such no other option was left but to officially state on the record, through a dissenting report, that due to partisanship throughout the committee process this report does not fulfil its responsibility to provide effective and non-partisan recommendations to the government.

SCOPA Report Posted_ Public Accounts of the Pro....pdf

From:	Nucciarone, Michael (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY)
Subject:	SCOPA Report Posted: Public Accounts of the Province (Ch 2 of AG"s 2017 Annual Report)
Date:	May 3, 2018 3:40:43 PM
Attachments:	Public Accounts of the Province (Final) English.pdf

---

Hi Deputy,

The Standing Committee on Public Accounts has tabled their review of Chapter 2, Public Accounts of the Province, of the Auditor General's 2017 Annual Report, attached.

The Committee's report provides two recommendations:

> 1. Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.
>
> 2. The Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's Office when they engage private sector firms for accounting advice or opinions.

On page 2 of the attached, the committee requests TBS and MOF have 120 days to respond to the recommendations, similar to Chapter 3.

Okay to share with MO?

Thanks,
Michael

Public Accounts of the Province (Final) Englis_3.pdf

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

PUBLIC ACCOUNTS OF THE PROVINCE

(CHAPTER 2, 2017 ANNUAL REPORT OF THE OFFICE OF THE AUDITOR GENERAL OF ONTARIO)

3rd Session, 41st Parliament
67 Elizabeth II

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Legislative Assembly of Ontario

Assemblée législative de l'Ontario

The Honourable Dave Levac, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Ernie Hardeman, MPP
Chair of the Committee

Queen's Park
May 2018

STANDING COMMITTEE ON PUBLIC ACCOUNTS
MEMBERSHIP LIST

3rd Session, 41st Parliament

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Chair

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LIZ SANDALS

JOHN VANTHOF regularly served as a substitute member of the committee.

KATCH KOCH
Clerk of the Committee

LAURA ANTHONY
Research Officer

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The Committee pressed the IESO if it could follow the Auditor General's second recommendation to remove Market Accounts. The IESO noted there is a "disagreement" between the IESO and Auditor General on which type of accounting treatment is most appropriate for the IESO. The IESO stated that rate-regulated accounting is the most appropriate way of representing its financials. The audit noted that the Market Accounts do not meet the criteria for recognition as assets and liabilities in the Province's consolidated financial statements.

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1. **Government accounting practices, and those of its agencies, that affect the consolidated financial statements of the Province, must be carried out in accordance with Canadian Public Sector Accounting Standards.**

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Dissenting Opinion of the Members of the Progressive Conservative Party.

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The second principle is one of constraining partisanship, a concept where in members of the committee are strong and secure in their ability to be non-partisan, and able to collaboratively construct solutions and recommendations.

If one or both of these principles is not respected, than the integrity of the committee, and its reports, come in to question.

In the case of this report, the committee has not addressed the Auditor General's concerns in a manner that could be at all considered effective, particularly in regard to the issues arising from the Government's use of external advisors and accounting firms when developing accounting and financial structures and positions. Concern was raised in the Auditor's report on how the activities of these external advisors were not brought to the attention of their office until that information was specifically requested. These issues were identified as being related to other significant concerns in the report, including with those involving the IESO and the inappropriate accounting of market account assets and liabilities.

Recommendations that should have been approved for inclusion in the final report to address these issues, but are not, include:

- Requiring that all subordinate entities of the legislature whose financial statements impact the consolidated financial statement require approval from the Auditor General on the appointment of their auditor;
- Requiring that any subordinate body of the legislature that employs the same firm to both provide accounting advice and to be their auditor, seek approval to do so from the Auditor General, and;
- That the Office of the Controller for the Province of Ontario should provide copies of all terms of reference to the Auditor General's office when other ministries or government agencies engage private sector firms for accounting advice or opinions.

The implementation of effective recommendations such as these was frustrated by the government's lack of motivation or interest to engage in thoughtful discussion on these issues, which is contrary to the principles and objectives of the committee.

As such no other option was left but to officially state on the record, through a dissenting report, that due to partisanship throughout the committee process this report does not fulfil its responsibility to provide effective and non-partisan recommendations to the government.

SCOPA Status Table.pdf

From:	Hosick, Sarah (TBS)
To:	Schlaepfer, Martin (ENERGY)
Subject:	SCOPA Status Table
Date:	January 22, 2018 10:17:36 AM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_Draft-DM PreBrief.docx

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Hi Martin,

Attached is the status table that was discussed at the joint DM SCOPA meeting on Friday. If any other edits needed from your ministry or agencies (i.e., your ministry confirming with OPG, IESO) can you please let me know by the end of the week?

Also Cindy is wondering if you are able to find out when the February IESO audit committee and board meetings are?

Happy to discuss

Thanks
Sarah

Sarah Hosick
Executive Assistant & Special Policy Advisor (A)
Assistant Deputy Minister's Office | Office of the Provincial Controller
Office of the Treasury Board | Treasury Board Secretariat
7 Queen's Park Cres E, 2nd Floor, Toronto, ON, M7A 1Y7
416-212-8512

Status Table_Ch 2 of AG AR_SCOPA_Draft-DM Pre_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

DRAFT

CONFIDENTIAL DRAFT FOR DISCUSSION

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Aanalysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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SCOPA chapter 2 QA.pdf

From: Cox, Hilary (ENERGY) on behalf of Hume, Steen (ENERGY)
To: Christie, Tim (ENERGY); Cayley, Daniel (ENERGY); Cox, Hilary (ENERGY)
Subject: SCOPA chapter 2 QA
Attachments: SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - DM Edits -FEB 8.docx

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SCOPA Ch 2_QA_Friendly_ENERGY IESO ESP OPG - _29.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   Response

   Independent Electricity System Operator's Approach to Accounting

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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SCOPA material.pdf

From:	Ue, Allison (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Skoberne, Vivienne (TBS); Nelson, Dane (TBS)
Subject:	SCOPA material
Date:	January 18, 2018 5:52:07 PM
Attachments:	Binder for DM Pre-Briefing_January 19 2018.zip

Hi Martin and Dave

For tomorrow's SCOPA briefing, the e-binder is attached. Please share this with folks that will be attending the meeting. I understand that our communications team has been working with their counterparts in your ministries. Feel free to invite them – I'll leave that up to you.

Let me know if you have any questions.

Thanks!
Allison

Binder for DM Pre-Briefing_January 19 2018.pdf

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1.pdf

Attachment 1. Cover Page (0 Bytes) cannot be converted to PDF format.

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Attachment 2. Table of Contents (0 Bytes) cannot be converted to PDF format.

Tab 1_Pre-Briefing Discussion Agenda.pdf

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Tab 2_Logistics and Format.pdf

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Tab 3_Strategic Approach.pdf

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Tab 4_Roles and Responsibilities.pdf

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Tab 5_DM Angus Opening Remarks Outline.pdf

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Tab 6_Questions and Answers Overview.pdf

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Tab 7_TBS Environmental Scan and Issues Overview.pdf

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Tab 8_Draft Briefing Binder Table of Contents.pdf

Attachment Tab 8_Draft Briefing Binder Table of Contents (0 Bytes) cannot be converted to PDF format.

Tab 9_Summary Status Table_Placeholder_To be circulated during meeting.pdf

achment Tab 9_Summary Status Table_Placeholder_To be circulated during meeting (0 Bytes) cannot be converted to PDF form

SCOPA Pre-Briefing Binder_Cover Page_Jan 19 2018.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

PRE-BRIEFING BINDER

January 19, 2018

SCOPA Pre-Briefing Binder_Table of Contents_20180119.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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Tab 6_____Questions and Answers Overview

Tab 7_____TBS Environmental Scan and Issues Overview

Tab 8_____Draft SCOPA Binder Table of Contents

Tab 9_____Summary Status Table Overview *(placeholder)*

SCOPA_Meeting Agenda_20180119.pdf

Communications Branch
Your Strategic Partner

AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

PRE-BRIEFING DISCUSSION

Date: Friday, January 19, 2018
Time: 4:00 p.m. – 5:00 p.m.
Location: TBS DMO Board Room 5th Floor Whitney Block
Attendees: TBS, MOF, MOE

Topic	Lead	Time
Introduction	TBS Deputy Minister	5 minutes
Overview • Schedule and format • Attendees • Strategic approach • Roles and responsibilities • DM Angus opening remarks outline • Questions and answers overview • Draft binder table of contents • Overview of additional materials	TBS Communications	25 minutes
Summary Status Table • Overview of draft table	Office of the Provincial Controller	15 minutes
Questions	All	15 minutes

1_SCOPA_Logistics Overview_20180119.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

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- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

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Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic for the Anti-Racism Secretariat, Critic for City of Ottawa Issues

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Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles
Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles
Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles
Member, Standing Committee on Public Accounts
Critic, Attorney General

MONTE KWINTER, MPP (LIB/YORK CENTRE)

Current Parliamentary Roles
Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of International Trade
Chair of the Ontario Investment and Trade Advisory Council

Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

2_SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

    - Explain, "I want to be absolutely precise and specific, so I will need to get back to you with the exact number"

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

   - Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

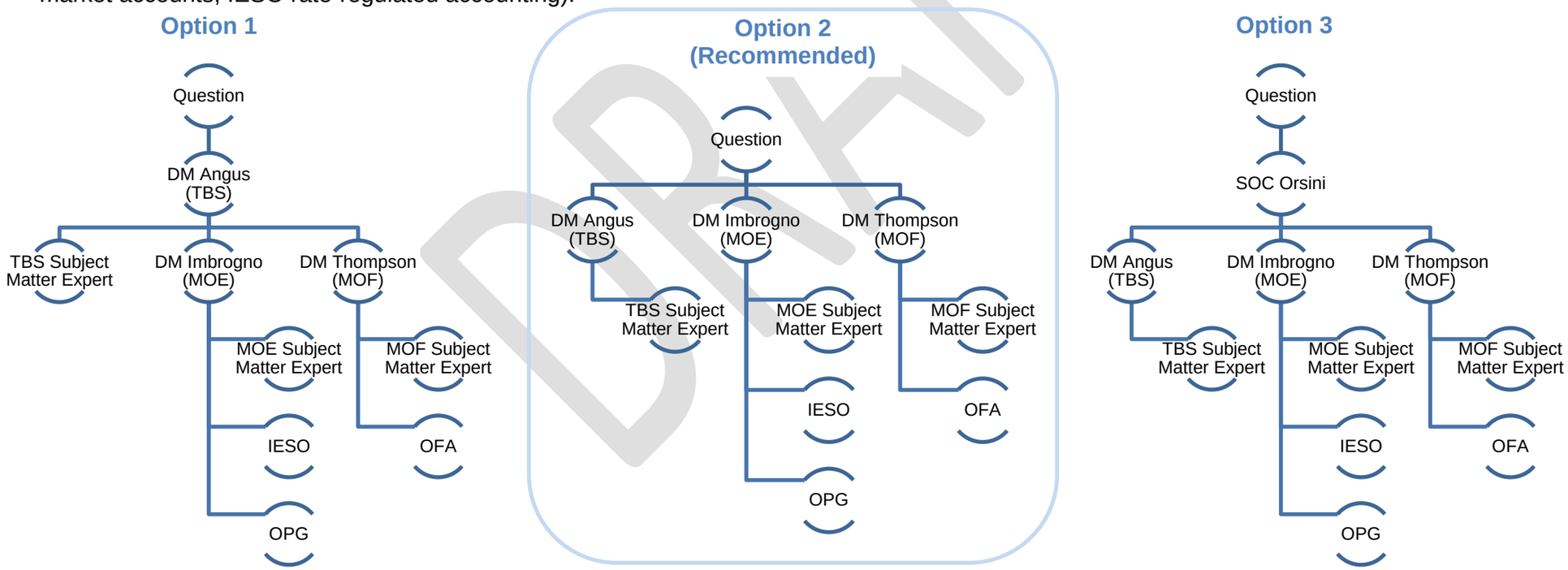
A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

SCOPA Strategic Approach_20180119.pdf

STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report.
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #3 IESO Rate-Regulated Accounting				Governmnet decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Acocunting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Struture / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Struture
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting						OPG Accounting / Trust		
Rec #9 Arm's Length Trusts					Financing Structure	Financing Structure						
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Spefic ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations		Specific salaries			

SCOPA_TBS Deputy Remarks Outline_20180119.pdf

INTRODUCTORY REMARKS - OUTLINE

Secretary Orsini – Introduction (Optional)

- Good afternoon and thank you to members of the Committee
- The Standing Committee on Public Accounts plays an important role in providing legislative oversight and guidance.
- Role of the public servant: non-partisan nature of public service; duty to provide our best advice; accountability and transparency

Deputy Angus – Introduction

- Good afternoon and thank you
- I'd like to take a moment to introduce my colleagues who are sitting with me here today:
    - Scott Thompson, Deputy Minister of Finance
    - Serge Imrogno, Deputy Minister of Energy
    - Cindy Veinot, Assistant Deputy Minister and Provincial Controller
    - And, as many of you know, I am Helen Angus, Deputy Minister of the Treasury Board Secretariat.
- We also have representatives here from the Ontario Financing Authority, Ontario Power Generation, the Independent Electricity System Operator, and other ministry officials, who are here to answer questions and would be pleased to join us at the table as needed.
- We welcome this opportunity to provide information and answer your questions regarding the Committee's consideration of the Chapter 2 of the Auditor General's 2017 Annual Report on the Public Accounts of the Province.

Overview of Public Accounts

- Public Accounts presents the government's financial statements and gives a picture of how finances were managed over the last fiscal year.
- Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector.
- The Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.
- PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

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Overview of Accounting Changes

- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency
- These changes include:
    - Accounting for hospitals, school boards and colleges.
    - Accounting for energy sector government business enterprises.
    - Accounting for the Independent Electricity System Operator (IESO) - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - Accounting for net pension assets of jointly sponsored pension plans - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Auditor General's 2017 Annual Report

- The government thanks the Office of the Auditor General for its recommendations.
- As I mentioned earlier, the Office of the Auditor General plays a critical role in auditing and reporting on the province's financial statements.
- However, there are times when we disagree, and it is our role as public servants to continue our due diligence, act with impartiality, and provide our best advice.
- Our professional staff exercises judgment in applying accounting standards and, as necessary, consults with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.
- That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Management Response to the Auditor General's Recommendations

- The Auditor General's annual reports provide for an opportunity for conversation, and in response to the Auditor General's recommendations, the government provided a detailed response to each of the 10 recommendations.
- As requested by the Committee, we have provided a response to each recommendation in the Summary Status Table, which you now have in front of you.
- This table includes more detail than you may have previously seen in chapter two of the Annual Report.
- Each response, on which we would be pleased to provide further detail, outlines the process and rationale as to why the government chose to either continue or adopt changes to accounting treatments.

Updates on Progress – From the Summary Status Table

- *To be added – any key updates/highlights on progress from the Summary Status Table*

Conclusion

- I would like to emphasize that, in our role as public servants, it is our job to exercise due diligence and professional judgment, consult external advisors when needed, carefully consider options, and provide our best advice.
- It is for this reason that accounting changes were adopted in the 2016-17 Public Accounts, and it for this reason that Deputy Thompson, Provincial Controller Veinot, and myself as the Deputy of the Treasury Board Secretariat signed a statement of responsibility, reaffirming our responsibility for the objectivity and integrity of the Public Accounts of the Province.
- As always, we welcome the opportunity to provide the Committee with information and to answer any questions.
- Thank you.

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1_SCOPA_QA Overview_20180119.pdf

QUESTIONS & ANSWERS OVERVIEW

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- Ontario Fair Hydro Plan (OFHP) Accounting
- Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)
- Pension asset accounting
- Pre-Election Report
- Province's debt burden

Long-Form Member Questions

1. Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?

2. Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?

3. Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?

4. What are the plans to keep Ontario's credit rating in good standing?

5. What is Ontario's debt repayment plan?

6. How is Ontario planning to keep a balanced budget?

7. *MOE to add*

8. *MOE to add*

9. *MOE to add*

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Top Questions

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

10. Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs, which are organized on the basis of Auditor General recommendation number.*

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2_QA Example Template v2.pdf

AG RECOMMENDATION #2: INDEPENDENT ELECTRICITY SYSTEM OPERATOR (IESO) MARKET ACCOUNTS

Deputy Minister High-level Response

- Thank you for your question.
- The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- I will now pass it over to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imrogno

  to provide more details.

Questions & Answers

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of PSAS for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

3. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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SCOPA TBS Issues Overview_TBS_20180119.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one FOI and one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
FOI Request TBS 2017-033 (Government) 1.All emails, memos and/or briefing materials responsive to the requests(s) made by the Auditor – General of Ontario and/or her office, in connection to her special report on the government's Fair Hydro Plan and *that were released* to the Auditor-General; and 2. All emails, memos and/or briefing materials responsive to the request(s) made by the A.G. of Ontario and/or her office, in connection to her special report on	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	January 19, 2018 (awaiting deposit)	This is a common request received by Cabinet Office, Energy, Finance and TBS. A common approach is being coordinated by IPA. Interim decision and fee estimate sent on December 20, 2017. Request is on hold until 50% deposit of estimate is received ($2,427.50). **Next Steps:** Await payment of deposit **(due**

the government's Fair Hydro Plan and *that have not been* released to the Auditor – General. 3. A summary of outside consultant and/or legal fees paid and/or payable by the government in relation to the preparation and/or rollout of the government's Fair Hydro Plan.			**January 19, 2018)**
OPQ #700 **MPP Vic Fedeli** Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	OPQ will be formally filed on February 20, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously

Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16,

	government will, as always, continue to follow the relevant legislation.	Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	2017 Toronto Sun article)
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs	• Example of single use of legislated accounting (Public Accounts 15-16)

		were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

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SCOPA(1).pdf

From:	Lightbody, Ava (ENERGY)
To:	Cayley, Daniel (ENERGY)
Subject:	SCOPA
Date:	March 8, 2018 3:55:00 PM
Attachments:	Auditor General 2017 Annual Report - SCOPA Chapt 2_Final.docx

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Hi Daniel,

Here is the final SCOPA ch 2 QA. It has this language “Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.”

Thanks,
Ava

Auditor General 2017 Annual Report - SCOPA Ch_35.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS
Chapter 2, Public Accounts of the Province
Key Messages, Q&A Response and Issues
February 2018

KEY MESSAGES

Ontario's Fair Hydro Plan

- The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher electricity bills.

- Ontario's Fair Hydro Plan has lowered electricity bills by 25 per cent for a typical residential consumer, and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

- These measures include the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST and build on previously announced initiatives to deliver broad-based rate relief on all electricity bills.

- Lower-income Ontarians and those living in eligible rural communities are receiving even greater reductions, as much as 40 to 50 per cent.

- Taken together, these changes have delivered the single largest reduction to electricity rates in Ontario's history.

Records Disclosure/Process

- The Ministry of Energy conducted a records search consistent with the 40 plus search terms provided by the Auditor General (AG).

- The Ministry selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians. The Ministry provided all responsive records to the AG (i.e., more than 73,000 emails).

- The Ministry provided regularly the AG with batches of responsive documents. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund / Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.

- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

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- In terms of governance and accountability, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Electricity Bill Re-Design

- Electricity bills are a customer's main window into the electricity system. Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the Ministry of Energy heard that customers found their bills confusing and inaccessible.

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.

- Building on this research, the Ministry of Energy launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

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Q&AS RESPONSE

Ontario's Fair Hydro Plan

Q. Why did the government introduce Ontario's Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Nearly $70 billion[1] has been invested in the electricity system since 2003, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent for a typical residential consumer and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, OFHP includes:

- Refinancing the Global Adjustment (GA) over a longer term period for eligible consumers, including residents, small businesses, farms and long-term care homes.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDCs) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario's Fair Hydro Plan, the government made the policy decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

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If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Q. Why is the government refinancing the Global Adjustment? It seems like overly complex way to provide lower electricity rates.

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that the province has made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

If pressed:

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

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Q. You say the $4 billion Financial Accountability Office (FAO) number is wrong? So how much will it cost?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

The $4 billion[3] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Since a number of variables (i.e., including interest rates, electricity demand and electricity costs) will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program

Ontario Power Generation (OPG), who has been identified as the Financial Services Manager (FSM) responsible for the financing plans and the Fair Hydro Trust (i.e., the entity that will manage the debt obligations), has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

If pressed on the details of the revised peak debt number and interest costs:

Peak debt for OFHP has been revised down from March 2017, from about $28 billion[4] to approximately $20 billion[5]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

The estimates of total interest cost also decreased from $25 billion[6] to less than $19 billion[7].

Updated estimates are consistent with 2017 Long-Term Energy Plan (2017 LTEP) projections, and include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

If pressed on FAO analysis interest costs:

The FAO's analysis of the interest cost associated with 55 per cent of debt being financed by OPG through capital markets assumed a 90 basis point spread above the rate for Government

[3] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[4] Ministry of Energy
[5] Ministry of Energy
[6] Ministry of Energy
[7] Ministry of Energy

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of Ontario debt. This is based on an average Government of Ontario interest rate assumption of 4.5 per cent and an average OPG interest rate assumption of 5.4 per cent.

As noted above, Ontario's revised analysis assumes an average interest rate for all debt of 5 per cent over the life of the plan. For reference, OPG Trust's initial offering of senior debt (comprising 51 per cent of the total offering) came in at 3.357 per cent.

Q. Why didn't you use the Ontario Electricity Financial Corporation (OEFC) to finance Ontario's Fair Hydro Plan (OFHP), similar to the Debt Retirement Charge (DRC)?

There are crucial differences between the two situations.

For example, the Ontario Electricity Financial Corporation (OEFC) stranded debt had already been incurred when the restructuring took place.

In the case of Ontario Fair Hydro Plan (OFHP), the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the clean energy adjustment (CEA).

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

OFHP's Global Adjustment (GA) deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

Q. The IESO has changed how it accounts for its market books. Did the government influence this decision?

No. The Independent Electricity System Operator (IESO) chose to begin recognizing its market accounts' assets (i.e., amounts due from power distributors) and liabilities (i.e., amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

In addition, IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

Both accounting changes were accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion and were highlighted in IESO's annual report which was published online in March 2017.

Q. How does the 3.357 per cent price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0 per cent average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5 per cent. In the development of the 2017 FAA the interest rate assumptions were revised to 5 per cent based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

- According to the Ontario Financing Authority (OFA), this represents a spread of 23 basis points over Ontario long-term debt (per an OFA email from February 2, 2017).

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

If pressed about future debt offerings:

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Wouldn't it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

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OPG currently manages approximately $20 billion[8] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition, OPG has developed solid investor relationships and has a large investor base in the structured finance space that are the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[9], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[10] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

If pressed, details of OPG's Fair Hydro Trust's first successful issuance and future activities:

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357 per cent for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

On February 8, 2017, OPG advised that the remainder of the debt is split between $382 million of "subordinated" debt at an interest rate of 3.637 per cent and $98 million of "junior subordinated" debt at 3.957 per cent.

The effective interest rate of 3.526 per cent is the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated).

OPG advises that another debt offering is planned for the near future (i.e., likely April).

Q. Who was involved in the policy and implementation of refinancing the Global Adjustment?

In developing Ontario's Fair Hydro Plan (OFHP) and the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

[8] Ontario Financing Authority
[9] Ontario Power Generation
[10] Ontario Power Generation

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In addition, senior officials and staff from several departments and agencies, led by the Ministry of Energy, met regularly in the development of the policy and structure of OFHP.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. When do we start paying the clean energy adjustment?

In order to ensure the cost of investments in the electricity are allocated fairly amongst current and future ratepayers, a portion of Global Adjustment (GA) costs is being refinanced.

Beginning in 2021, financing costs will be recovered from consumers through the clean energy adjustment, while borrowing will continue until approximately 2028.

Q. Does OPG make money running the Fair Hydro Trust?

Ontario Power Generation was identified as the Financial Services Manager (FSM) responsible for the Financing Plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations under the Global Adjustment (GA) refinancing program.

OPG has the necessary financing and commercial expertise to assist with refinancing the GA and will ensure that it is done in an efficient and cost-effective manner.

Under the *Ontario Fair Hydro Plan Act, 2017* and associated regulations, OPG is permitted to charge fees in its role as FSM. This ensures OPG is able to recover costs incurred in relation to its activities as FSM. The methodology for the calculation of fees is set out in regulation and includes performance-based components. The regulation also sets out the role of the Ontario's Energy Board (OEB) in reviewing and approving the fees.

In accordance with OPG's Financing Plan, 49 per cent of the debt obligations are purchased by OPG, funded by periodic equity injections from the Province and OPG's own corporate borrowing program.

OPG earns a return on its investment in the Trust, which ensures the transactions are commercial and meets accounting requirements. The remaining 51 per cent of the debt obligations are funded through the capital markets.

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Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. Global Adjustment (GA) refinancing was designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. How much is the tax-base paying to keep electricity rates low? Aren't these cost that should be borne by the rate-base?

In the development of Ontario's Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers through the introduction of new and enhanced electricity support programs, such as the Ontario Electricity Support Program (OESP) and Rural or Remote Rate Protection (RRRP).

At the same time, the government also made a policy decision that cost recovery for OESP and the majority of RRRP should be shifted off electricity bills to provincial revenues. This decision has lowered regulatory charges on <u>all</u> electricity bills by approximately $3/MWh.

The OESP and RRRP are programs designed to support electricity consumers that are most vulnerable to increasing electricity costs. The government's decision to fund these programs through provincial revenues was taken in recognition of the fact that these programs are for the common good and are more appropriately supported by the tax-base rather than the rate-base.

Similarly, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, is also funded through provincial revenues in recognition of the social, environmental and economic goals that were achieved through the transformation of the electricity system, including the phase out of coal-fired electricity generation.

On the other hand, given that the policy objective of GA refinancing is to more fairly allocate the cost of our investments over the useful life, not the contractual term, of electricity generating assets, it was our primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the refinancing of electricity assets.

If pressed on the cost of the new and enhanced social programs and the 8 per cent rebate:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP, the new Affordability Fund, and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Over this same three year period, the 8 per cent rebate introduced in January 2017, which is equivalent to the provincial portion of the HST, was forecast to cost the government roughly $1 billion dollar per year.

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Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. What changes were made to the Industrial Conservation Initiative (ICI) as part of Ontario's Fair Hydro Plan?

Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism that was introduced in 2011 following consultation with our stakeholders.

ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially, but it also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers. It's a voluntary program and eligible consumers are able to opt in or out in June of each year.

As part of Ontario's Fair Hydro Plan (OFHP), ICI has been expanded to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW, in addition to the consumers over 1 MW who were already eligible.

- The smaller manufacturing and greenhouse consumers include those with North American Industry Classification System (NAICS) codes starting with 31-33 and 1114.

- Newly eligible participants would have begun to see the impact on their July 2017 bills.

This was in addition to an earlier regulatory amendment, effective January 2017, which had expanded the ICI to all consumers over 1 MW of average monthly peak demand.

Prior to these two expansions, there were approximately 300 ICI participants. For the current adjustment period there are approximately 1,100 participants, many of which would not have

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previously been eligible but realized they could benefit their companies or organizations by opting in to the program as a result of the expansions.

Records Disclosure / Process

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

The Ministry of Energy completed its response to the AG on October 26, 2017. The Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Affordability Fund

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

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There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Electricity Bill Re-Design

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long-Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

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Q. What is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

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From:	Ue, Allison (TBS)
To:	Schlaepfer, Martin (ENERGY); McLean, David (MOF)
Cc:	Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY); Clarke-Darshanand, Jamille (MOF); Nelson, Dane (TBS)
Subject:	SCOPA
Date:	February 13, 2018 2:09:28 PM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180213 - revised2.docx Cover Letter_Summary Status Table - revised.doc

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Hi there

Attached is the cover letter and revised status table (w/tracked changes from the version that was presented on Friday last week). OPCD has been working with your folks on the table. Please take another look, and let us know if you have any edits.

We are hoping to provide this to DM Angus today for final review before we send it tomorrow.

Thanks
Allison

Allison Ue
Manager, Deputy Minister's Office
Treasury Board Secretariat
Office: 416-326-6286 | Cell: 437-997-1200
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Status Table_Ch 2 of AG AR_SCOPA_20180213 - r.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario

Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and ~~b~~(c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. ~~The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as~~ PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables,	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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accounts recorded on its financial statements; and • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of the legislation, would have been collected from	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27~~%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments.~~ %. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will	Continue to monitor progress.~~ Estimated implementation by FY 2029-30.~~

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	gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining~~, falling to 37.3% in 2017-18~~ from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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risks associated with corporations tax and personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government ~~may file a regulation that would require it to~~shall release a Pre-Election Report	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	on Ontario's Finances~~.~~ and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be required to ~~issue a Statement based on a prompt~~promptly review ~~following the release of such a~~the Pre-Election Report~~.~~ to determine whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

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Cover Letter_Summary Status Table - revised.pdf

Treasury Board Secretariat

Deputy Minister , Treasury Board
Secretary of Treasury Board and
Management Board of Cabinet

99 Wellesley Street West
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Tel: 416-325-1607
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Secrétariat du Conseil du Trésor

Sous-ministre, Conseil du Trésor
Secrétaire du Conseil du Trésor et du
Conseil de gestion du gouvernement

99, rue Wellesley Ouest
Édifice Whitney, bureau 5320
Toronto, ON M7A 1A1
Tél. : 416 325-1607
Téléc. : 416 325-1612

February 14, 2018

Katch Koch
Clerk of the Committee
Standing Committee on Public Accounts
Whitney Block, Rm 1405
99 Wellesley St West
Toronto, ON, M7A 1A2

Dear Mr Koch,

Re: Status Report, Chapter 2 – Public Accounts of the Province (2017 Annual Report of the Office of the Auditor General of Ontario)

As requested in your letter dated December 20, 2017, please find enclosed a copy of the summary status table in response to Chapter 2 – 2017 Annual Report of the Office of the Auditor General.

If you have any questions in advance of the meeting on February 28, 2018, please do not hesitate to contact me.

Sincerely,

Helen Angus
Deputy Minister, Treasury Board
Secretary of Treasury Board and Management Board of Cabinet

c. Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General
Steve Orsini, Secretary of Cabinet, Cabinet Office
Scott Thompson, Deputy Minister, Ministry of Finance
Gadi Mayman, Chief Executive Officer, Ontario Financing Authority
Serge Imbrogno, Deputy Minister, Ministry of Energy
Steen Hume, Assistant Deputy Minister, Ministry of Energy
Peter Gregg, President and Chief Executive Officer, Independent Electricity System Operator

…/2

Kimberly Marshall, Vice President, Corporate Services and Chief Financial Officer, Independent Electricity System Operator
Jeffrey Lyash, President and Chief Executive Officer, Ontario Power Generation
Ken Hartwick, Chief Financial Officer and Senior Vice President Finance, Ontario Power Generation
John Mauti, Vice President, Chief Controller and Accounting Officer, Ontario Power Generation
Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat
Cindy Veinot, Assistant Deputy Minister and Provincial Controller, Treasury Board Secretariat

SCOPA_QA_Friendly_Chapter 3_ICI(1).pdf

From:	Cox, Hilary (ENERGY)
To:	Christie, Tim (ENERGY); Cayley, Daniel (ENERGY)
Subject:	SCOPA_QA_Friendly_Chapter 3_ICI
Date:	March 5, 2018 11:42:38 AM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI.docx

Hi Guys –
Please fact-check review the attached (revised) Chapter 3 friendly on ICI. I'd like to have this back by 1 pm please.

HC

SCOPA_QA_Friendly_Chapter 3_ICI_3.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

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The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

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Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

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History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. Right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

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By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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SCOPA_QA_Friendly_Chapter 3_ICI.pdf

From:	Hume, Steen (ENERGY)
To:	Cox, Hilary (ENERGY)
Subject:	SCOPA_QA_Friendly_Chapter 3_ICI
Date:	March 5, 2018 11:24:37 AM
Attachments:	SCOPA_QA_Friendly_Chapter 3_ICI.docx

Hi. Can you have policy do a quick review of the attached. I added a "conclusion" section of previously approved content.

Thanks,

SCOPA_QA_Friendly_Chapter 3_ICI_4.pdf

Energy

Q. What is the Industrial Conservation Initiative (ICI) and how does it provide benefits to the electricity system?

Response

The Industrial Conservation Initiative (ICI) is a demand response program and cost allocation mechanism. It has been in place since 2011.

The ICI allows large electricity consumers to lower their electricity costs by reducing their demand during peak hours. This benefits companies financially. It also benefits the electricity system by reducing the need for peaking generation, which reduces system costs that would otherwise need to be recovered from all Ontario ratepayers.

The ICI is a voluntary program and eligible consumers are able to opt in or out in June of each year. Today, there are about 1,100 companies enrolled in the program across a variety of sectors.

Through the program, the consumers who contribute the least to peak demand pay a smaller portion of costs associated with electricity generation, conservation and demand management programs.

In other words, ICI participants are charged Global Adjustment (GA) in proportion to their contribution to the top five system peak hours in a year.

Global Adjustment

Before I go any further, I think it would be best to provide a very brief overview of what the Global Adjustment (GA) is.

The Global Adjustment (GA) is a mechanism that recovers certain electricity system costs. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity and amounts owed to generators to ensure they can recover their fixed costs. The Global Adjustment also recovers the costs of running conservation programs in the province.

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The market price for electricity, known as the Hourly Ontario Energy Price (HOEP), is calculated each hour and represents the marginal cost of producing power at that time. If HOEP is lower than a generator's regulated or contracted rate, Global Adjustment makes up the difference. When market prices exceed these contracted and regulated costs, suppliers have to pay back the difference.

As a result, the Global Adjustment varies from month to month, responding to changes in the HOEP. Generally speaking, when HOEP is lower, GA is higher, and vice versa. The GA is also impacted when new projects come in to service, contract payments take effect, or as a result of changes in demand. The combination of the HOEP and GA represent the total commodity cost of electricity.

All consumers pay GA, but there is variation in how different types of customers are charged. Most customers, that is anyone not enrolled in the ICI, pay a volumetric charge. This means that they pay the same GA rate on every kilowatt-hour consumed. If you're a typical residential consumer, for example, the GA is built into the price of a kilowatt-hour of power that you see on your bill. In some cases the GA shows up as a separate line item on their bill.

However, participants in the ICI program are charged GA based on the proportion of their electricity demand compared to the total provincial electricity demand in the top five system peak hours in a year. If a consumer is assessed to be responsible for one per cent of Ontario's peak demand in those five highest hours, they will be charged for one per cent of total GA costs each month through the next year. Peak hours depend on a number of factors, such as time of day, time of year, and the weather.

ICI participants manage their GA costs by consuming less during peak hours. So they work to forecast when system peak hours will occur, and then work to reduce consumption during those hours. They can respond using any number of strategies, such as changing the operating profiles of industrial equipment.

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Benefits of Industrial Conservation Initiative (ICI)

The Industrial Conservation Initiative provides a number of system benefits. First, because ICI provides a reduction in Ontario peak demand, it helps defer the need to build expensive new peaking generation facilities in the longer term, reducing costs for all ratepayers across the province: residential, commercial and industrial.

By keeping peak system demand as low as it can be, we are making the system more cost-effective for all ratepayers into the future.

Second, it better aligns consumer prices with the consumer's contribution to total system costs. Consumers who are drawing electricity from the system at times of peak demand in the province pay a larger proportion of the costs.

Simply put, ICI is fair because it is designed to match each customer's share of costs with their contribution to those costs.

Lastly, through lower industrial prices, the ICI works to retain manufacturing load in the province, meaning that these manufacturers continue to contribute towards fixed system costs that would otherwise be borne by remaining consumers.

The ICI helps industrial consumers lower electricity prices by one-third on average. It helps them to remain competitive and focused on creating jobs for Ontarians across the province.

Thanks in part to the ICI, industrial electricity prices in Ontario are lower than the average price in the rest of the Great Lakes region, according to the U.S. Energy Information Administration.

We have been taking steps to make sure that Ontario businesses are aware of the program and how it can help them improve their competitiveness and keep providing jobs. We have partnered with the Ontario Chamber of Commerce (OCC) to ensure that all Ontario businesses are aware of the benefits of this program. OCC is leading the campaign to raise awareness amongst Ontario consumers.

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History of Industrial Conservation Initiative and Expansions

Since ICI was introduced in 2011, it has undergone changes to respond to customer demand.

At first, the ICI was available to consumers with peak demand above five megawatts (MW). In July 2015, this was extended to consumers operating in select sectors with average monthly peak demand greater than 3 MW. These sectors included the mining, refrigerated warehousing, greenhouses and data processing sectors.

In January 2017, we further expanded the program to include more than one thousand customers with monthly peak demand greater than one megawatt. In addition, sector restrictions were removed and smaller industrial, institutional and commercial businesses were eligible to participate.

As part of Ontario's Fair Hydro Plan, the ICI has been expanded again to include smaller manufacturers and greenhouses with peak demand between 500 kW and 1 MW. Newly eligible participants would have begun to see the impact on their July 2017 bills.

Prior to the 2017 expansions, there were approximately 300 ICI participants. Right now there are approximately 1,100 participants, many of which would not have previously been eligible but realized they could benefit their organizations by opting in to the program.

Expanding participation in the ICI program has reduced electricity demand during peak periods, and it has reduced electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

ICI Effectiveness and Results

The ICI has been very successful at reducing peak electricity demand. In fact, our system operator estimates that this program reduced peak demand by about 1,300 MW in 2016. That's about 6 per cent of Ontario's peak electricity demand, and is equivalent to the peak electricity demand of

a city roughly the size of Mississauga. It's about twice as much as the output of Halton Hills Generating Station west of the Greater Toronto Area.

The Ministry of Energy is focused on both meeting demand for electricity and taking costs out of the electricity system wherever possible. Reducing peak demand has played an important role in both of these objectives.

Thanks in part to lower peak demand, the contracts for several Non-Utility Generator (NUG) facilities have recently ended and these facilities have not been re-contracted.

In addition, the second round of the large renewable procurement process (LRP ll) and the Energy-from-Waste Standard Offer Program have been suspended, which is expected to save up to $3.8 billion in electricity system costs relative to the 2013 forecast.

Future expected reductions in peak demand due to the ICI are also factored into the cost forecasts included in the recently released 2017 Long-Term Energy Plan.

The Industrial Conservation Initiative is about fairness for all consumers – large and small. We made the policy decision that it makes sense for electricity consumers to pay for electricity system costs proportionally to their contribution to the incurrence of those costs.

Further, the ICI program will continue to play an important role in helping us bring down total system costs, which will put downward pressure on electricity bills for everyone moving forward.

<u>Conclusion</u>

The Industrial Conservation Initiative (ICI) benefits electricity consumers by reducing demand at peak periods, helping to reduce the need to build more peaking electricity generation in the long-term.

Our electricity system is planned to ensure we have enough generation to meet peak demand.

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By keeping peak system demand as low as it can be, we can avoid building costly new generation.

This makes the system more cost-effective for all ratepayers.

Our system operator estimates that this program reduced peak demand by about 1,300 megawatts in 2016 – the peak electricity demand of a city roughly the size of Mississauga.

The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers.

The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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Standing Committee on Public Accounts - Chapter 2 (1).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Whittington, Matt (ENERGY); Berry, James (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY); Whytock, John (ENERGY); Campbell, David (ENERGY); Perkins, Michael (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter 2
Date:	February 12, 2018 10:38:26 AM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_20180208.docx 1. SCOPA QAs_MOE_20180208 - Approved.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx

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Hi Matt, James,

Last Friday a meeting was held with TBS, MOF, ENERGY and the SoC to discuss the Standing Committee on Public Accounts – Chapter 2 appearance on February 28th.

Sharing for your reference the materials the Ministry developed including Q&As, key messages, and status updates to the recommendations coming out of the Auditor General's Annual Report.

Happy to discuss if you have any questions.
Thanks,
Michael

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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1. SCOPA QAs_MOE_20180208 - Approved_6.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Standing Committee on Public Accounts - Chapter 2 (2).pdf

From:	Nucciarone, Michael (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter 2
Date:	February 13, 2018 4:21:00 PM
Attachments:	1. SCOPA QAs_MOE_20180208 - Approved.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx Status Table_Ch 2 of AG AR_SCOPA_20180213 Final to Clerk.docx

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Martin,

I ran it by the Deputy, who is comfortable sharing the Chapter 2 materials with IESO and OPG. Items attached.

Thanks,
Mike

1. SCOPA QAs_MOE_20180208 - Approved_7.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards	Continue to monitor progress.

	its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

Standing Committee on Public Accounts - Chapter 2 (3).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	"David Barrett"
Cc:	"Jordan Penic"; Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter 2
Date:	February 13, 2018 6:23:00 PM
Attachments:	1. SCOPA QAs_MOE_20180208 - Approved.docx SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.docx Status Table_Ch 2 of AG AR_SCOPA_20180213 Final to Clerk.docx

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Hi David,

Attached are the latest materials for our appearance at SCOPA on chapter 2.

Thanks,
Martin

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1. SCOPA QAs_MOE_20180208 - Approved_8.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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Status Table_Ch 2 of AG AR_SCOPA_20180213 Fin_3.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and (c) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Governments have the legal authority to engage external professionals on the wide range of legal, policy and financial issues that fall within their executive authority. It is also widely recognized that a government is entitled to a zone of confidentiality in which to consider this advice before any final decision is made. This is with the full understanding that ultimately the government will be accountable to the public and the Legislature for its decisions. Part of that accountability includes a commitment to full cooperation with any Officer of the Assembly legally authorized to review and comment on the government's actions, including the disclosure of any documents the officer is entitled to receive as part of his or her work. Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*	Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	

their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%. The government is making strategic investments in programs and services that will generate economic growth, while minimizing interest on debt costs. These investments are intended to grow the economy at a faster rate than net debt, allowing the government to manage Ontario's net debt-to-GDP ratio. The forecast balanced budget in 2017–18 will limit the increase in net debt to net investments in capital assets. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards	Continue to monitor progress.

	its 27% net debt-to-GDP target. The ratio has already commenced declining from its 2014-15 peak of 39.3%. As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
AG Recommendation #10 *We recommend that the government determine*	Under the *Fiscal Transparency and Accountability Act*, 2004, in such circumstances as may be prescribed by regulation, the government shall release a Pre-Election Report on Ontario's Finances and shall do so before the deadline established by regulation. Should the government file such a regulation, the Auditor General would be	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.	required to promptly review the Pre-Election Report to determine whether it is reasonable and issue a Statement describing the results of the review. Staff of Treasury Board Secretariat and the Ministry of Finance have begun working with their colleagues in the Office of the Auditor General of Ontario to engage in planning and preparatory work for the development and review of a Pre-Election report, should a regulation be filed.	

Standing Committee on Public Accounts - Chapter 2 .pdf

From:	Nucciarone, Michael (ENERGY)
To:	Whittington, Matt (ENERGY); Berry, James (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY); Whytock, John (ENERGY); Campbell, David (ENERGY); Perkins, Michael (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter 2
Date:	February 12, 2018 10:13:19 AM
Attachments:	SCOPA SoC Briefing Package.zip

Hi Matt, James,

Last Friday a meeting was held with TBS, MOF, ENERGY and the SoC to discuss the Standing Committee on Public Accounts – Chapter 2 appearance on February 28th.

Sharing for your reference the electronic binder of materials that was put together that includes Ministry specific Q&As and status updates to the recommendations coming out of the Auditor General's Annual Report.

Happy to discuss if you have any questions.
Thanks,
Michael

SCOPA SoC Briefing Package.pdf

Attachment SCOPA SoC Briefing Package (0 Bytes) cannot be converted to PDF format.

1.pdf

Attachment 1. Briefing Package for Meeting (0 Bytes) cannot be converted to PDF format.

2.pdf

Attachment 2. DRAFT_E-Binder (0 Bytes) cannot be converted to PDF format.

1. SCOPA_Meeting Agenda for Feb 9_SoC Briefing.pdf

Communications Branch
Your Strategic Partner

AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

JOINT SoC/DMs BRIEFING

Date: Friday, February 9, 2018
Time: 12:00–1:00pm
Location: Room 6501, 6th Floor, Whitney Block
Attendees: CAB – SoC, Communications
TBS – DMO, OTB, OPCD, Communications
ENER – DMO, Communications
MOF – DMO, Communications

Topic	Lead	Time
Opening Remarks	DM Angus	5 minutes
SCOPA Overview • Agenda & Logistics • Strategic Approach • Issues Management Summary	TBS – Communications	10 minutes
Management Response to Recommendations	TBS – OPCD	20 minutes
SoC's Role • Key messaging • Anticipated questions	DM Angus	20 minutes
Next Steps • Dry run • Final products	TBS – Communications	5 minutes

2. SCOPA SoC Briefing Deck_20180208.pdf

Communications Branch

Your Strategic Partner

Standing Committee on Public Accounts

Secretary of the Cabinet Briefing on Chapter 2, Public Accounts of the Province

February 9, 2018

Overview

- Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding Public Accounts of the Province.

- Recommendations largely reflect opinions expressed in previous reports, including AG's audit opinion in 2016-17 Public Accounts and Special Report on the Fair Hydro Plan.

- The province disagrees with the characterization of the majority of the recommendations, and re-iterates its commitment to producing high-quality financial reports on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Logistics

- Agenda
  - *See: Tab 1 p. 1 of the Briefing Binder*
- Room setup
  - *See: Tab 1 p. 2 of the Briefing Binder*
- Media access
  - *See: Tab 1 p. 2 of the Briefing Binder*
- Ministry/organization representatives to attend
  - *See: Tab 1 p. 3 & 4 of the Briefing Binder*
- Committee members
  - *See: Tab 1 p. 5 of the Briefing Binder*

Strategic Approach

- Provide **evidence and facts** as basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).

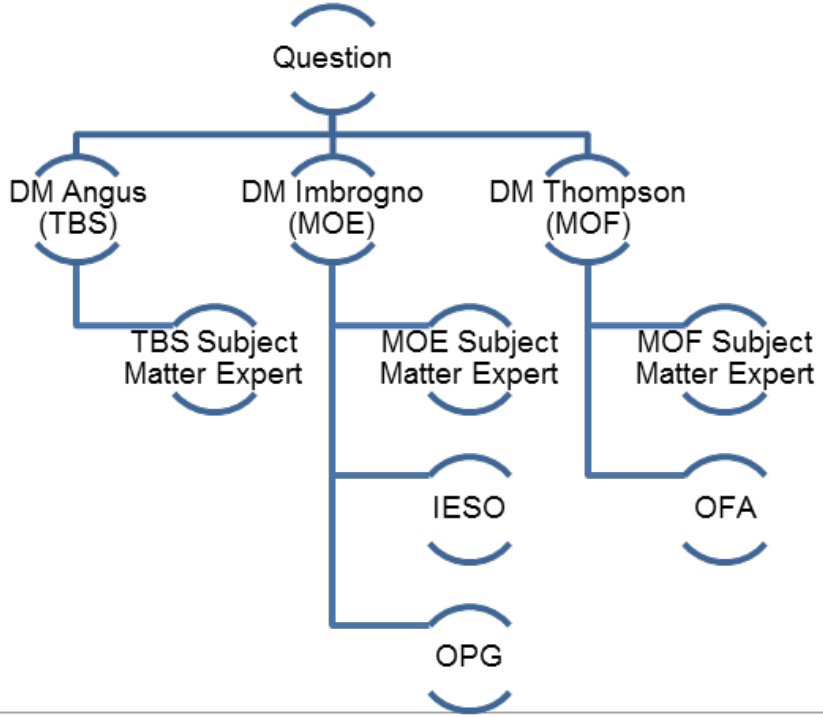
- Emphasize **role of public servant** to provide factual, non-partisan information to committee based on due diligence and application of professional judgment.

- Use committee appearance as opportunity to communicate facts and rationale for decision to **adopt/continue accounting practices** in response to AG's recommendations.

- Highlight **due diligence in decision making** (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).

Roles & Responsibilities

- Secretary of the Cabinet will be seated in the first row behind the three Deputy Ministers.
- Deputy Ministers to provide initial messaging then pass to subject matter experts where appropriate.
- Specific roles and responsibilities are outlined in Tab 3 of Briefing Binder.



Key Issues

- Based on AG's 2017 Annual Report, media and Hansard analysis, and SCOPA invitee list, anticipated key issues include:
  - Ontario Fair Hydro Plan accounting
  - IESO accounting (market accounts; rate-regulated accounting)
  - Pre-Election Report
  - Pension asset accounting
  - Province's debt

- Additional considerations:
  - Stakeholder reports and commentaries (e.g. Ontario Chamber of Commerce Economic report; FAO report on Hydro One; Fraser Institute commentaries on fiscal situation)
  - Third Quarter Ontario Finances
  - Executive compensation (e.g. OPG & IESO)
  - IESO/OPG "inappropriate expenses"
  - IESO Audit Committee meeting
  - OPG Financing of Regulatory Assets

Issues Management Strategy Summary

Issue	Strategy	Key Messages
Pension asset accounting TBS lead	• Emphasize due diligence and objective advice to support government decision-making. • Leverage external analysis where appropriate. • Reaffirm commitment to working with AG.	• The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian PSAS. • The province will continue to evaluate the need for a valuation allowance annually.
IESO accounting Finance/IESO lead TBS to speak to government decision to accept accounting	• Emphasize due diligence and objective advice to support government decision-making. • Leverage external analysis where appropriate. • Reaffirm commitment to working with AG.	• The province supports this enhanced reporting and greater transparency for the economic activities of the IESO. • The province is open to continue to discuss the issue in the hopes of resolving this matter.
Ontario Fair Hydro Plan Energy/OPG/IESO lead TBS to speak to accounting	• Highlight due diligence included in OFHP decision-making, and that the accounting structure is still being finalized. • Avoid any speculation on political decision-making or future events.	• It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. • The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Issues Management Strategy Summary

Issue	Strategy	Key Messages
Pre-Election Report Joint TBS/Finance lead	• Reaffirm government's commitment to working with Office of Auditor General. • Avoid speculation on political decision-making or future events.	• The province remains committed to meeting the legislative requirements of the FTAA and working constructively with the Office of the Auditor General. • *(TBC as decisions are finalized.)*
Province's Fiscal Situation Finance/OFA lead	• Provide context, evidence and facts; refer to documents in public domain where appropriate. • Highlight due diligence. • Avoid speculation on political decision-making or future events.	• The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian PSAS.
Preparation of Public Accounts TBS lead Finance to speak to timelines re: tax revenues	• Avoid speculation on political decision-making or future events. • Reaffirm commitment to working with AG. • Confirm province seeks external expertise when appropriate as normal course of business.	• It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. • The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

Issues Management Strategy Summary

Issue	Strategy	Key Messages
Insisting on Speculation	• Emphasize role of public servant is to provide objective advice to support government decision-making. • Avoid speculation on political decision-making or future events.	• As a public servant, it would be inappropriate for me to speculate on the intentions of the government. • We provide neutral advice to support decision-making.
Confidential Advice	• Emphasize role of public servant is to provide objective advice to support government decision-making. • Avoid any commitment if unsure whether information is confidential or not.	• This matter could be considered confidential advice provided. • I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the committee.
Out of Scope	• Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report.	• I am happy to provide a response to the question as it relates to chapter two of the Annual Report. • I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

Response to Recommendations

- Refer to Appendix A for the province's management response to the Office of the Auditor General's recommendations.

Anticipated Questions

- Refer to Appendix B for anticipated top questions, including key messaging for Secretary of the Cabinet.

- Refer to Tab 6 of Briefing Binder for comprehensive list of anticipated questions and answers.

Supporting Products

- Summary status table
- Introductory remarks
- Comprehensive Q&As
- Long-form member Q&As
- Issues notes

2A. Appendix A_Status Table_Ch 2 of AG AR_SCOPA_20180208.pdf

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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2B. Appendix B_SCOPA QAs_SOC_20180208.pdf

QUESTIONS & ANSWERS

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QUESTIONS FOR THE SECRETARY OF THE CABINET

1. **Secretary, we want to hear from you, as the head of the Public Service – can you answer the question on ___?**

   Thank you for your question.

   If applicable:
   What I can say is that [*refer to key messages below*].

   I cannot speak to the specifics of your question, but I would be happy to pass it over to my colleague, Deputy ___.

2. **How can you say the province is responsibly managing its finances when Ontario is the most indebted sub-sovereign jurisdiction, has received a qualified audit opinion two years in a row, and continues to go down a path of questionable accounting with the Fair Hydro Plan?**

   Thank you for your question.

   The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   We will continue to ensure appropriate due diligence is completed in all objective advice that we provide to support government decision-making.

   This includes completing our own internal analysis, building prudence into financial forecasts, looking to other jurisdictions or external advisors to supplement our own analysis, and always bringing our best professional judgment to the table.

   If you'd like further details on these points, I will pass it over to my colleagues, who would be pleased to provide the Committee with further information.

3. **If your colleagues are, as you say they are, providing objective, good advice, why do you think the elected government continues to ignore the public service and go ahead with policy decisions like the Fair Hydro Plan?**

   Thank you for your question.

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As a public servant, as you can appreciate, it would be inappropriate for me to speculate on the intentions of the government.

What I can say is that I am confident in my colleagues, who like me, work to provide our best, objective advice to support government decision-making.

Whether it is for the Ontario Fair Hydro Plan, or anything else, the province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards.

Where these standards are silent, our professional staff will exercise their professional judgment and apply the standards' guidelines as appropriate.

For the purposes of Ontario's Fair Hydro Plan, the province considered a range of implementation options and consulted with legal, accounting, financial, and energy sector experts to provide advice and ensure due diligence was completed.

For further details on the Fair Hydro Plan, I will pass it over to Deputy Imbrogno. He and his team would be pleased to provide the Committee with further information.

4. What advice did you give the Premier regarding on the Ontario Fair Hydro Plan?

Thank you for your question.

As a public servant, it is our role to provide our best, objective advice to support government decision-making.

I am unable to speak to the specific advice that was provided, as this would be considered confidential. However, I would like to assure the Committee that for this policy matter, like any other, our professional staff ensured due diligence was completed in providing their advice.

For further details on that due diligence, including the consideration of a range of implementation options and consultations with legal, accounting, financial, and energy sector experts, I will pass it over to Deputy Imbrogno. He and his team would be pleased to provide further details.

5. **Is the province willing to move forward, ignoring the advice of the Auditor General, at the risk of another qualified audit opinion – or worse, an adverse audit opinion? Don't you think this would affect the province's credit rating, and make debt even worse than it is for future generations?**

   Thank you for your question.

   As you can appreciate, it would be inappropriate for me to speculate on how the Auditor General may issue an opinion for the next Public Accounts.

   What I can say is that the province has a strong track record of producing high-quality financial reports on a timely basis. We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   If you would like further details on the preparation of Public Accounts and the province's work with the Office of the Auditor General, I would be happy to pass it over to Deputy Angus.

   If you would like further details on the province's fiscal management, I would be pleased to pass it over to Deputy Thompson.

6. **Why has the government avoided a clear answer on the Pre-Election Report? Will you, as per legislative requirements, issue this important accountability document?**

   Thank you for your question.

   I want to stress that the province takes the Auditor General's recommendations seriously.

   Our teams are engaging all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

   The government has not yet made a decision on whether and when to release a Pre-Election Report.

   For further details on the Pre-Election Report, and how the province has been working with the Office of the Auditor General, I will pass it over to Deputy Angus and Deputy Thompson.

7. **How can you justify the exorbitant salaries that are being paid to consultants, to OPG and IESO executives, when the people of this province are struggling to make ends meet?**

   Thank you for your question.

   I would like to emphasize that province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   I believe this topic may be out of scope for today's consideration of chapter two of the Auditor General's 2017 Annual Report.

8. **What has been your relationship with the Auditor General? As the head of the public service, aren't you concerned that the government continues to undermine independent officers of the legislature?**

   Thank you for your question.

   I speak for myself and my colleagues when I say that the OPS has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

   Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General.

   I know, for example, that the Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   As public servants, we will continue to ensure due diligence and provide our best, objective advice to support decision-making. In addition, we will continue to work with all officers of the legislature to keep them informed and engage constructively on considerations and approaches.

   For further details on recent collaborations with the Office of the Auditor General on the topic of the preparation of Public Accounts, I will pass it over to Deputy Angus.

9. **Secretary, why does the province continue to turn to consultants or external advisors whenever there is disagreement with the Auditor General? Doesn't the public service have the expertise in-house? Or do**

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you just turn to external experts as a way to circumvent the opinions and recommendations expressed by the Auditor General?

Thank you for your question.

I would like to emphasize that the OPS has the utmost respect for all independent officers of the legislature, and we value the important and necessary perspective they bring.

Our professional staff will continue to take a proactive approach to raising issues with the Office of the Auditor General.

The province's use of external expertise for accounting and financial reporting matters supplements our own resources on complex or emerging matters.

External advisors are generally engaged to provide advice and guidance to supplement our own internal analysis. This is within a normal course of business, and is part of our responsibility to ensure due diligence.

We remain committed to working with the Office of the Auditor General to discuss issues.

For further details on how we use external expertise to support our own internal analysis, I will pass it over to Deputy Angus.

PENSION ASSET ACCOUNTING

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Deputy Angus

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IESO ACCOUNTING

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Deputy Angus
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

ONTARIO FAIR HYDRO PLAN

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

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- The province's professional staff have appropriately applied PSAS guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Deputy Angus
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

PRE-ELECTION REPORT

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- My colleagues are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.
- For further details, I will pass it over to:
    - Deputy Angus

PROVINCE'S FISCAL SITUATION

Key Messages

- The province has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We are projecting a balanced budget in 2017-18.

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- The Ministry of Finance is committed to a responsible fiscal plan and they build prudence into our forecasts.
- For further details, I will pass it over to:
    - Deputy Thompson

PREPARATION OF PUBLIC ACCOUNTS

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- Our professional staff exercise judgment in applying the standards and as necessary consult with external experts and advisors.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017 Statements										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations		IESO/OPG compensation Expenses			

4. SCOPA Calendar_Feb 2018.pdf

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
4	**5** *SCOPA Updated E-Binders Circulated*	**6** **SCOPA Joint Deputy's Briefing Discussion** OPG - Financing of Regulatory Assets	**7**	**8** *SCOPA SOC Deck & Updated E-Binders Circulated*	**9** **SCOPA SOC & Joint Deputy's Briefing**	**10**
11	**12** FAO Report on Partial Sale of Hydro One	**13**	**14** **SCOPA Status Table due to Committee**	**15** TBC: MOF Q3 Update	**16** *SCOPA Materials Finalized*	**17** TBC: Summary of TB orders published in Gazette
18	**19** Family Day	**20** House Resumes TBS OFHP OPQ filed MMP Meeting	**21** *TBC: SCOPA Dry Run*	**22**	**23** *SCOPA Final E-Binders Circulated*	**24**
25	**26**	**27** IESO Audit Committee Meeting	**28** **SCOPA Appearance**			

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*TBD: Pre-Election Report
Supply Act

Last updated: February 8, 2018

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 28, 2018

BRIEFING BINDER - DRAFT

February 9, 2018

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- House Book Notes

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Tab 10_Environmental Scan.pdf

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Tab 11_Reference Materials.pdf

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Tab 1_Agenda and Logistics Overview.pdf

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Tab 2_Strategic Approach.pdf

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Tab 8_Tips for Presenting at SCOPA.pdf

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Tab 9_Auditor General Reports.pdf

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Attachment C. Ministry of Finance Environmental Scan (0 Bytes) cannot be converted to PDF format.

SCOPA TBS Issues Overview_TBS_20180205.pdf

Communications Branch
Your Strategic Partner

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

TBS ENVIRONMENTAL SCAN AND ISSUES OVERVIEW

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Environmental Scan

Based on the Auditor General's 2017 Annual Report, media analysis, Hansard analysis, and the invitee list for the SCOPA session on February 28, 2018, it is anticipated that the focus of the Committee will be the following:

- **Pension asset accounting**
- **Ontario Fair Hydro Plan (OFHP) Accounting**
- **Independent Electricity System Operator (IESO) Accounting (market accounts; rate-regulated accounting; other – IESO/OPG "inappropriate expenses"; OPG compensation)**
- **Pre-Election Report**
- **Province's debt burden**

Following the release of the Auditor General's Annual Report on December 6, 2017, TBS-related issues were referenced in 41 per cent of articles, including specifically the "accounting disputes" between the Auditor General and the government, spending on government advertising, and the Auditor General's commitment to audit the IESO's consolidated financial statements. In the House, there were eight questions related to TBS issues: 50 per cent were related to the IESO/OPG "inappropriate expenses"; 25 per cent were related to government advertising; and the remaining two questions focused on the balanced budget narrative and the Pre-Election Report.

Overall, the focus on Public Accounts specifically has been limited in the media and the House alike: between September and December 2017, there were 12 mentions of Public Accounts. 50 per cent of mentions referenced "accounting rules" or the alleged existence of "multiple sets of books". Following the tabling of Public Accounts 2016-17, media coverage was limited and 80 per cent of coverage was neutral in tone.

Media Scan

Auditor General 2017 Annual Report

- **Media Events – December 6, 2017**
  - **Auditor General**
    - Overall, TBS-related issues represented 28% of the Auditor General's remarks.
    - Media questions on TBS-related issues represented 28% of all questions asked (7 out of 25)– **including on the planned audit of IESO's financial statements, government numbers vs. AG numbers being used for the PC's platform, and concerns regarding pre-election reports.**
  - **Government Response**
    - Overall, TBS-related issues represented approximately 20% of the discussion.

        - Media questions on TBS-related issues represented 20.8% of all questions asked (5 out of 24) – questions focused on government advertising and **on comments made by the Auditor General to "address significant issues without fear of push-back and reprisal."**

    - **PC Response**
        - Introductory remarks focused generally on waste and mismanagement.
        - Media questions on TBS-related issues represented 17% of all questions asked (2 out of 12) – **questions focused on the PC's use of the government's numbers in their "People's Guarantee" platform**

    - **NDP Response**
        - TBS-related issues related to 8% of the third party leader's remarks, particularly on government advertising
        - No direct mention of TBS-led chapters, **however 38% of questions (3 out of 8) focused on IESO expenditures**

- **Initial Media Coverage**
    - There were approximately 17 stories focusing on the Auditor Generals' 2017 Annual Report
    - 41% of articles referenced TBS-related issues
    - Key themes related to TBS issues include: **"accounting disputes" between the AG and the government** – and the effect it has on the balanced budget narrative, spending on government advertising, and **the AG's statement that she will audit the IESO's financial statements.**

- **Recent Media Coverage** (December 2017 – January 2018) has focused on the following key themes:
    - **The government's relationship with the Auditor General**
    - **Pre-election report**
    - **Distrust of government numbers/"two sets of books"**

Public Accounts

- **Media Coverage**
    - Media coverage was short-term (24-hours), with **80% of media coverage neutral in tone** (compared to 26% in 2016)
    - Government key messages were picked up 100% of the time
    - Balanced budget key messages were picked up in 60% of the coverage

- **Key Themes**
    - Disagreement between the government and auditor general

- Ontario's fiscal position: government debt and deficit
- The government's alleged continued dismissal of watchdogs

Pre-Election Report

- **Media Coverage**
  - On December 17, 2017, the Toronto Sun published a column by Lorrie Goldstein, "Auditor General headed for a showdown with Wynne over financial vows Liberals made in 2004" focusing on the Pre-Election Report
  - On January 24, 2018, Minister Sousa was asked by Jessica Smith Cross (QP Briefing) about the plans for the Pre-Election Report. Minister Sousa signalled that plans were uncertain at this time: "What happens is, you produce a document then you provide the pre-election report. So I have to manage this concurrently. But again, we recognize the timing and the constraints that that brings. **So I have to find other ways** to ensure that full disclosure is given to her and the other legislative, to the FAO."

Hansard Scan

Auditor General 2017 Annual Report

Following the release of the Auditor General's 2017 Annual Report, there were eight questions in the House relating to TBS issues:

- 50% (4/8) were related to **OPG/IESO "inappropriate expenses"**
- 25% referenced the FAO - one on balanced budget, one on the **pre-election report**

Public Accounts

Public Accounts were mentioned in the House at least 12 times between September and December 2017:

- 50% mention some form of "accounting rules" / two sets of books
- 42% (5/12) related to infrastructure spending
- 25% (3/12) mention FAO and AG together
- 25% regarding Fair Hydro Plan accounting
- One reference to pre-election finance report

FOIs/OPQs

There is one OPQ currently in progress with TBS related to Ontario Fair Hydro Plan accounting.

Overview	Key Issues	Key Dates	Next Steps
OPQ #700		OPQ will be formally filed on	In progress –

MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	**Ontario Fair Hydro Plan Accounting** **Relationship with the Auditor General** **Use of external advisors**	February 20, 2018	**Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

- Executive compensation (OPG, OEB, IESO)
- "Inappropriate expenses" (OPG, IESO)
- Hydro bill redesign ("$15 million")

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

		plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. IESO's recent accounting changes are supported by the IESO's audit committee, board of directors, its independent external auditor, and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.	Opinion supported by: • IESO audit committee • Independent external auditor (unqualified opinion) • OPCD • Same method used by Ontario Power Authority previously
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making, and that the accounting structure is still being finalized. Refuse to speculate about AG's potential future audit opinion.	The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).	• PSAS Guidance • CPA professional code of conduct • External advisors • Other jurisdictions

	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. The professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.	
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a	• Highlight how the government has been working with the Office of the Auditor General (stated by Minister Sandals in a Dec 16, 2017 Toronto Sun article)

		prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.	
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.	• C4SE study • MOF
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its	• Example of single use of legislated accounting (Public Accounts 15-16)

		consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.	
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.	• CPA professional code of conduct
FOI/OPQ/Records Disclosure			

Questions & Answers

Top Questions*

1. How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?

2. How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?

3. The government has received a second qualified audit opinion on its Public Accounts – this time based on two separate issues. Why do you continue to disagree with the Auditor General?

4. The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?

5. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

6. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

7. Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.

8. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

9. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

10. Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?

11. When will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?

**See appendix A for a full list of QAs.*

Long-Form Answers

1. **Why did the government choose to recognize pension assets from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan? What evidence and processes were used to support this decision?**

2. **Why did the Treasury Board Secretariat accept the IESO's recognition of market accounts on the province's consolidated financial statements? Is there any precedent for this?**

3. **Can you explain when and how the Treasury Board Secretariat looks to other accounting methods to support the preparation of Public Accounts?**

Ministry/Agency Representatives

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson

Supporting Materials

Backgrounders

- Auditor General 2017 Annual Report – Public Accounts – Management Response Backgrounder
- Public Accounts Backgrounder

Technical Briefings/QAs

- Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- Public Accounts
- Fair Hydro Plan Accounting
- Pension Asset Accounting

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Attachment B. House Book Notes (0 Bytes) cannot be converted to PDF format.

Backgrounder_PA_2017 AG Report.pdf

Not published. Used as a 'walk around' for QP Gallery

Ontario

BACKGROUNDER

Treasury Board Secretariat

Summary of Government Responses to the Auditor General's 2017 Annual Report Chapter on Public Accounts

December 6, 2017

The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

Below is a summary of the government's position regarding the Auditor's recommendations in Chapter 2 – Public Accounts of the Province.

Accounting for Pension Assets

The government continues to move forward and present the Province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Last year there was a disagreement among the Province's professional accounting staff and the Auditor General's Office on the appropriate application of PSAS regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue. The independent panel members concluded the Province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset.
- An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded.

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

The government continues to apply the accounting treatment of pension assets that the Province has used consistently since 2001.

IESO Market Accounts

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. The IESO chose to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of IESO-administered markets at year-end.

This change was supported by IESO's Audit Committee, its Board of Directors, its independent external auditor, and by the Office of the Provincial Controller. It has no impact to the Province's annual deficit, net debt or accumulated deficit.

The financial statements of IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

The accounting concepts used are consistent with those used previously by the Ontario Power Authority (which was merged with IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO Rate-Regulated Accounting

PSAS is silent on the issue of rate-regulated accounting – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Standards Handbook.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework that provides guidance on rate-regulated operations.

IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America.

Ontario Fair Hydro Plan Accounting

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The proposed accounting for OFHP reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in section PS1150.07 from the Public Sector Accounting Handbook.

This guidance has been appropriately applied in assessing the accounting for the OFHP.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from OFHP.

Legislated Accounting

The Province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for certain net pension assets in order to allow Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS.

The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

The Province, as always, will prepare its consolidated financial statements in accordance with PSAS.

Lawvin Hadisi, Minister's Office, 416-326-3839
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Ontario

STATEMENT

Treasury Board Secretariat

Statement from the President of the Treasury Board on the Auditor General's Annual Report

December 6, 2017

Today, Liz Sandals, President of the Treasury Board, released the following statement:

"We thank the Auditor General for her report, and continue to appreciate our ongoing working relationship with the Office of the Auditor General (OAG). The Treasury Board Secretariat works closely with the OAG on a wide variety of issues on a regular basis, and her oversight and insight is welcomed both during our regular interactions and with this annual report.

The Auditor General mentions a number of topics that represent ongoing conversations between government and her office; for instance, the accounting practices regarding pension assets and the application of the United States Generally Accepted Accounting Principles when the Public Sector Accounting Board's standards are silent. The government's position on these differences of opinion has not changed.

We agree with the Auditor General's comments on the importance of accountability for agencies, boards, commissions and other broader public sector entities. Since 2010, our government has implemented a number of important measures to strengthen broader public sector and provincial agency accountability, transparency and governance. Our recent Fall Economic Statement, if passed, responds to the recommendations of the Auditor General in her 2015 Annual Report to streamline administration and establish consistency in the tabling and communication of provincial agency annual reports. However, we know that making process changes to annual reports may not be the complete solution. We will continue working with the OAG to enhance oversight and ensure accountability across all of our agencies.

We share the Office of the Auditor General's belief that the Auditor General has an important role to play in the oversight of government advertising, and that's one of the reasons that we are proud that Ontario is the only jurisdiction in Canada to have legislation in place to ensure that oversight. In fact, we have recently expanded her oversight to include digital advertising.

We know that the government has a responsibility to communicate to the public it serves, and that advertisements are one medium through which we can do that. For example, our Sexual Violence and Harassment prevention campaign – #WhoWillYouHelp challenged existing attitudes, and sparked international discussion. Our video was viewed over seven million times in the first 10 days, and generated more than 85 million views worldwide. And within 6 months, we had measurable results – 55 per cent strongly agreed they had an obligation to intervene when witnessing sexual harassment, up from 37 per cent.

As the President of the Treasury Board, I am committed to leading the government's efforts on accountability, openness and modernization, while working to deliver good government and public services in the most effective and efficient way possible. As part of this commitment, we work side-by-side with our partners, including the Auditor General, throughout the year to ensure that we continue to become more efficient in our processes and more open and

accountable as a government."

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Fair Hydro Plan Accounting HBN Jan15 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

ONTARIO'S FAIR HYDRO PLAN ACCOUNTING (GLOBAL ADJUSTMENT REFINANCING)

ISSUE: What is the basis for the proposed accounting for the Global Adjustment Refinancing on the Province's books?

CONTEXT:

- The Global Adjustment Refinancing is one component of Ontario's Fair Hydro Plan announced in March 2017, and is the most significant contributor to the reduction in hydro rates for residential consumers.
- The other parts of the Plan for residential consumers include:
  - Expansion of the Ontario Electricity Support Program;
  - Reductions in distribution rates for consumers in rural and remote areas;
  - Reductions for First Nations residential consumers living on-reserve; and,
  - A fund set up to assist consumers in making their homes more energy efficient.
- The only impact on the 2016-17 consolidated financial statements from Ontario's Fair Hydro Plan is related to the fund set up to assist consumers in making their homes more energy efficient, which was expensed in the year and increased the annual deficit. In addition, the 8 per cent rebate on electricity bills, introduced as of January 1, 2017, while not part of the March 2017 announcement, also impacted the 2016-17 consolidated financial statements as an expense that increased the annual deficit.
- The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized. The government will present the Province's finances in the 2017-18 Public Accounts fairly and accurately and in accordance with Public Sector Accounting Standards (PSAS).

KEY MESSAGES:

GA Financing Status and Structure

- In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.
- All of the agreements necessary for the Global Adjustment (GA) Refinancing will be finalized in the current fiscal year. The final accounting for the GA Refinancing will be completed once all of the elements are complete. The balance of the note is based on the expected outcome. As previously noted, there was no impact on the 2016-17 consolidated financial statements from the GA Refinancing.
- In analyzing the appropriate accounting treatment for the GA refinancing component of Ontario's Fair Hydro Plan on the Province's consolidated financial statements in 2017-18 and going forward, the Province considered authoritative guidance issued by the Public Sector Accounting Board, as well as the accounting assessments of the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) management, including the accounting opinions of their external auditors.
- The complexity and unique structure of the GA Refinancing structure requires the use of professional judgment to ensure that key financial reporting objectives of transparency and accountability are best served.
- Under GA Refinancing, as enabled by the Ontario Fair Hydro Plan Act, 2017 ("OFHPA"), a Financing Entity established by Ontario Power Generation will borrow amounts to fund the payment of a portion of electricity costs charged by the electricity generators, thereby temporarily reducing the amount paid by eligible consumers (or ratepayers). The deferred amounts, including interest and other costs, will be recoverable from consumers/ratepayers in the future.

- The Independent Electricity System Operator (IESO), an independent, not-for-profit agency of the Province, is responsible for the management and operation of the wholesale electricity market. IESO makes payments to the electricity generators with cash received from the local distribution companies (and ultimately the consumers/ratepayers).
- Over the last 10+ years, investments have been made to phase-out coal and modernize Ontario's electricity system (i.e., build and maintain a reliable electricity system). This involves a move away from coal to cleaner, but more expensive methods of electricity generation, including wind, solar and natural gas. The cost of these investments were passed on to consumers/ratepayers as incurred or based on contractual payment terms, but not based on the period of benefit (i.e., the life of many generators is expected to exceed the length of the contracts).
- The GA refinancing acknowledges that the current generation of electricity consumers has paid more than its fair share for these costs, and spreads these costs incurred out over more years so they are shared proportionally by future electricity consumers.
- In simple terms, the IESO will continue to make payments to the electricity generators based on their contractual terms, but will collect less from the local distribution companies, as the consumers or ratepayers will pay a reduced amount. The amount not collected from the consumers now, or the shortfall, will be collected from consumers/ratepayers in the future.

- OFHPA permits the IESO to sell that shortfall, also referred to in the Act as a regulatory asset, which represents the right to collect payments from consumers/ratepayers in the future, to a financing entity. To recap, the IESO will continue to pay the electricity generators at their current contract rates. But it will do this with cash collected from the local distribution companies for electricity consumed (at a rate set by the OEB which reflects a significant portion of the 25 per cent reduction in the initial years) and cash received from the financing entity for the sale of the regulatory asset.
- The financing entity will be part of Ontario Power Generation (OPG Trust), a government business enterprise, wholly owned by the Province. The operations of Ontario Power Generation have been and will continue to be included in the consolidated financial statements of the Province using the modified equity method, the method Public Sector Accounting Standards (PSAS) require for government business enterprises.
- At its discretion, OPG Trust will purchase the shortfall amounts (or regulatory asset) from the IESO through a combination of provincial borrowing (flowed through OPG as an equity investment), amounts advanced from OPG and direct borrowing from capital markets.
- In the future, when the consumers/ratepayers pay for the deferred amount, those amounts will be used to repay the accumulated debt whether that be direct borrowing from the capital markets, amounts advanced from OPG or provincial borrowing.

IESO Accounting

- There was no impact on the 2016 financial statements of IESO from the GA Refinancing. The GA refinancing is expected to impact the 2017 financial statements.

- In 2017, the shortfall or regulatory asset that IESO incurs as a result of collecting less from the local distribution companies than it pays to the electricity generators would be accounted for as a rate-regulated asset. The rate-regulated asset would then be sold to OPG Trust for cash used to pay the electricity generators.
- For 2016, IESO adopted the use of rate-regulated accounting for costs incurred unrelated to the GA Refinancing; however, the impact to the financial statements of the Province was immaterial (impact on annual deficit of $24 million).
- PSAS is silent on the use of rate-regulated accounting. However, like all major accounting frameworks, PSAS encourages both preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.
- IESO management, their audit committee, their board of directors and their external auditors, agree with the adoption of rate-regulated accounting by IESO. The Office of the Provincial Controller also supports the adoption of rate-regulated accounting by IESO.
- IESO is not the first entity that has prepared its financial statements using PSAS and rate-regulated accounting. Ontario Power Authority (which was amalgamated with IESO on January 1, 2015) prepared its financial statements with PSAS and used rate-regulated accounting.
- In the Auditor General's opinion on the 2016-17 consolidated financial statements of the Province, the AG has included an "Other Matter" paragraph, drawing attention to the adoption of rate-regulated accounting by IESO. The AG's view is expressed as stating PSAS does not permit rate-regulated accounting, but that the AG has not qualified the opinion on this matter because the impact is not material to the 2016-17 consolidated financial statements.

- The AG further notes, “However, the consolidated financial statements may become materially misstated in future periods, as a result of the legislated accounting prescribed under the Ontario Fair Hydro Plan Act, 2017 (OFHPA) and its related regulations, as it is not in accordance with Canadian public sector accounting standards.”
- Neither the IESO nor the Office of the Provincial Controller Division (OPCD) agree with the statements that (a) PSAS does not permit rate-regulated accounting (as previously noted, PSAS is silent with respect to rate-regulated accounting) or (b) Fair Hydro Plan and its related legislation and regulations legislate the accounting for GA Refinancing.

OPG Accounting

- The Auditor General has not raised any concerns to date with the intended accounting for the OPG Trust on the Province’s books.
- It is expected that OPG Trust will be controlled and consolidated by OPG.
- Purchases by OPG Trust of the rate-regulated assets from the IESO will be reflected on OPG’s books as intangible assets which will be included in the Province’s financial statements as part of its investments in government business enterprises.

The Province’s Accounting

- In assessing the appropriate accounting for Ontario’s Fair Hydro Plan (OFHP) on the Province’s books, OPCD worked closely with key ministries, the Ontario Energy Board (OEB), IESO, OPG and their respective external advisors.
- The final accounting treatment for OFHP-related activities will be confirmed once all elements of the GA Refinancing framework are finalized, including provincial guarantees and financing arrangements.

- Once the details and commercial agreements of the OFHP are finalized, the external auditors of IESO and OPG are expected to provide independent accounting opinions on the accounting treatment on IESO and OPG's financial statements.
- OPCD will rely on those independent accounting opinions, the audited financial statements of IESO and OPG as of December 31, 2017 and its own research and analysis in determining the impact of the GA Refinancing on the 2017-18 consolidated financial statements.

If Pressed: AG Assertion that the Government is Using Legislated Accounting

- The Auditor General has made several incorrect references to legislated accounting which should be addressed to ensure clarity and transparency in terms of the government's accounting treatment for Ontario's Fair Hydro Plan.
- In particular, the Auditor General has referred to legislated accounting prescribed by the OFHPA that is designed to in some way manipulate the Province's financial reporting in its consolidated financial statements.
- The Province's financial statements are based on Public Sector Accounting Standards (PSAS) as issued by the Public Sector Accounting Board of CPA Canada. There is no legislated accounting that applies to the Province's consolidated financial statements.
- While the OFHPA does, under Section 24, require that IESO set up a variance account to track the cash shortfall amount resulting from the deferred recovery amount, it is just another type of regulatory account, similar to those that OPG reports and for which the OEB is responsible for approving rates.

- As far as the Province's financial reporting practices go, whether the deferred amounts reported in IESO's variance account are assessed as assets for financial reporting purposes will be determined by the interpretation and application of Public Sector Accounting Standards, not by the legislation or regulations.

Auditor General's Special Report on the Fair Hydro Plan

- The Office of the Auditor General released *The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money* on October 17, 2017. The report focused on the financial and accounting framework of the OFHPA.
- The Auditor General said that the accounting for the Fair Hydro Plan is not permitted under PSAS because it is silent on rate-regulated accounting, despite the fact that standard accounting practice, including under PSAS, dictates that an entity should consult other accounting standards for transactions not specifically covered by primary standards.
- The Auditor General asserts in her report that the OFHPA creates an asset through legislation. This is a fundamental disagreement the government has with the Auditor General's report. The Province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

Key Messages on AG's Special Report on the Fair Hydro Plan

- The government respects independent officers of the legislature, and values the important perspective they bring, but does not agree with the assertions and conclusions expressed in the Auditor General's Fair Hydro Plan report.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

- In developing the Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.
- The Fair Hydro Plan operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards and ensures the goals underlying the program are achieved in a cost-effective manner.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything. When that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.
- The financing plan and its impact will continue to be transparent and fully available to credit rating agencies, securities regulators, and the public.
- The Ministry of Energy, the Ministry of Finance, and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.

RECENT MEDIA COVERAGE:

- January 12, 2018 – An opinion piece in the Toronto Star argues Kathleen Wynne faces a phantom opponent in the spring election: Ontario's auditor general, who looms like an accounting apparition over the premier. The article notes, Lysyk isn't just picking fights with Liberal cabinet ministers but clashing with Ontario's non-partisan public service as well as outside consultants. The most awkward contretemps took place a year ago, when an expert panel of accounting and actuarial experts shredded the auditor's claims about the government cooking the books.
- January 4, 2018 – The Brighton Independent covers Liberal MPP Lou Rinaldi's plans for re-election, while making reference to the "issues" the government has with the Auditor General, particularly on pension asset and Fair Hydro Plan accounting.
- January 3, 2018 – The CBC runs an article "No quick fix for Ontario's energy woes, electricity analyst says," noting the criticisms from opposition parties and analysts regarding the accounting of the Fair Hydro Plan.

- December 17, 2018 – The Ottawa Sun's Lorrie Goldstein writes that "independent financial officers say Wynne government's books can't be trusted," noting the Auditor General and FAO's concerns regarding Fair Hydro Plan accounting: "In her Dec. 6 annual report, Lysyk warned "there is a very real risk" the "government's continued use of nonstandard accounting" will "seriously distort the true state of the province's finances...The government uses these incorrect accounting treatments to claim it has balanced the province's books, but in reality, legislators, the financial community and all Ontarians will be misled as to the true condition of the province's finances." In its fall economic and fiscal outlook released last week, the FAO warned, "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 13, 2017 – The Toronto Sun runs a comment piece following from the Financial Accountability Office's fiscal and economic outlook, fall update report, entitled "Liberals hiding deficit, second watchdog says," noting the Auditor General and FAO's criticisms of the accounting for the Fair Hydro Plan.
- December 11, 2017 – The Toronto Star's Robert Benzie covers the Financial Accountability Office's fiscal and economic outlook, fall update report, noting the FAO's agreement with the Auditor General's questioning of the accounting of the Fair Hydro Plan: "The FAO also backed the auditor general in questioning the complex mechanism the government has developed to bankroll the 25 per cent electricity rate cut, known as the Fair Hydro Plan. Because of the actuarial tussle "it is becoming more difficult for legislators and the public to assess the government's fiscal projections.""
- December 11, 2017 – The Canadian Press' Shawn Jeffords also covers the FAO's report, noting: "The FAO said in its report that since the government has not adopted the auditor's recommended accounting for both the pension assets and the Fair Hydro Plan it is becoming more difficult for legislators and the public to assess the government's fiscal projections."
- December 6, 2017 – The Canadian Press and other outlets cover the Auditor General's 2017 Annual Report, noting the accounting disagreements between the Auditor and the government: "Lysyk also announced through her report that her office would be auditing the IESO's books. That comes amid one of two accounting disputes the auditor has been engaged in with the Liberal government. She recently accused the government of purposely obscuring the true financial impact of its 25 per cent cut to hydro bills by keeping billions in debt used to finance that plan off the province's books. Lysyk said she will audit the IESO because of its role in the hydro plan's complex accounting scheme."
- November 2, 2017 – The Waterloo Region Record runs an editorial by analysts from the Fraser Institute entitled, "Ontarians in the dark about Fair Hydro Plan." The piece argues: "Ontario needs real reform to lower electricity prices for residents and businesses. Unfortunately, the provincial government is opting for improper accounting practices and temporary solutions, sticking current and future Ontarians with the bill."
- October 26, 2017 – CBC writes that "Ontario hydro bills to rise over next 10 years in government's energy plan," referencing the Auditor General's report on Fair Hydro: "Ontario's auditor general Bonnie Lysyk found that the Liberals concocted a "needlessly complex" system in order to achieve the savings in the Fair Hydro Plan by moving $26 billion of debt off the government's books […]Thibeault said the accounting isn't deceptive, and that similar financing strategies have been used throughout Ontario history, including for the construction of nuclear plants in the 1970s."
- October 25, 2017 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute's Ontario Prosperity Initiative entitled "Number's up for Wynne's government," writing "But regardless of how pension assets should be treated, or how new debt incurred by the government's Fair Hydro Plan should appear on the books, the stark reality is that Ontario taxpayers are carrying far more public debt than a decade ago and that burden is growing quickly, every year."

- October 24, 2017 – CBC references the Auditor General's report on Fair Hydro, writing "Auditor General Bonnie Lysyk criticized how the program is being financed, saying the province is "improperly" accounting for the $26 billion in debt it's taking on to cut hydro bills in the short term. The Liberals called the controversy an "accounting dispute" with the auditor."
- October 23, 2017 – Global News reporter Alan Carter wrote an analysis on "truth" and Fair Hydro. He wrote, "The war between Lysyk and the Liberals is whether the Fair Hydro Plan and its use of Ontario Power Generation as a debt vehicle is a sign of devious politicking or just the way things get done."
- October 23, 2017 – The Peterborough Examiner carried an opinion piece written by Minister of Energy, Glenn Thibeault. "I'm not surprised to see the Conservatives try to get in the middle of an accounting dispute between the government and the Auditor General for personal political gain. It's how they deflect without putting forward any policy ideas of their own."
- October 22, 2017 – The Toronto Sun's Antonella Artuso wrote that the way the Liberals "hid" the cost of its Fair hydro Plan from taxpayers could raise concerns that other governments across the country could follow suit and bury deficits.
- October 22, 2017 – The Toronto Sun's opinion piece says the Fair Hydro Plan is simply 'long-term pain for short-term gain".
- October 19, 2017 – CBC's Mike Crawley writes about the Auditor General's accusations that the government was trying to hide documents from her investigation. Crawley writes that the Progressive Conservatives have made a request to the province's "top public servant to ensure that all relevant documents and emails are saved."
- October 18, 2017 – CTV News (6pm) includes the Progressive Conservative's reaction to the Fair Hydro report: "opposition calls for resignations of ministers of finance and energy after AG report."
- October 18, 2017 – QP Briefing's Jessica Smith Cross highlighted that the $4 billion figure cited by the Auditor General and the Financial Accountability Office that would be wasted due to the government's "needlessly complex" financing structure for Ontario's Fair Hydro Plan was said 21 times by opposition parties during Question Period that morning.
- October 18, 2017 – The Globe and Mail's Justin Giovannetti (A9) highlights the Auditor General's Fair Hydro report. The article includes a quote from Minister Sandals: "Perhaps the essential accounting dispute that we have with the auditor is a dispute over what happens when the Canadian Public Sector Accounting Standards are silent, when they don't give direction,' Ms. Sandals said. 'We keep running into this problem because, quite frankly, Ontario is the biggest province, and we often have bigger projects and do things a bit differently from all the smaller provinces.'"
- October 17, 2017 – The CBC's Mike Crawley covers the Auditor General's report, writing "The auditor says the plan could also result in Ontarians paying "up to $4 billion more than necessary" in interest. That's because OPG will be required to pay higher interest rates than the province would if the government took on the debt directly."
- October 17, 2017 – The Toronto Star's Robert Benzie also focused on the Auditor General's so-called scathing report on Ontario's Fair Hydro Plan, while acknowledging the historical dispute between the Auditor's Office and the government.
- October 17, 2017 – The Ottawa Citizen's David Reevely continues with key themes in the coverage, also writing: "The Liberals really, really, really wanted to keep that debt off their books, so they could also go into the next election saying the provincial budget is balanced. Borrowing billions in an election year would get in the way. So they did some advanced financial engineering to put the debt on Ontario Power Generation instead."

- October 17, 2017 – The Canadian Press' Allison Jones cites the Auditor General's statements, and includes Minister Sandals' rebuttal on the point of asset accounting: "Treasury Board President Liz Sandals said credit rating agencies are ranking the hydro debt in preparation for selling it. 'That's the difference,' she said. 'Somebody actually wants to buy it, ergo it is an asset.'"
- October 17, 2017 – QP Briefing provided a primer on the report, and pointed to the Auditor General's criticism of the government on the alleged willingness to accept a qualified audit opinion for the province's Public Accounts.
- October 17, 2017 – The Auditor General's report and remarks during the media conference were extensively covered across the media. Coverage consistently cited the key themes in the Auditor General's report, highlighting the "needlessly complex" accounting structure, "improper accounting," and the "anticipated $4 billion more in interest payments than if the province had borrowed the funds directly."
- October 17, 2017 – The Toronto Sun's Antonella Artuso featured an overview of the Fraser Institute's report released in the morning, arguing that "Soaring electricity prices resulted in 75,000 fewer manufacturing jobs for Ontarians since the recession".
- October 17, 2017 – The Office of the Auditor General held a media conference for the release of The Fair Hydro Plan: Concerns about Fiscal Transparency, Accountability and Value for Money.
- October 17, 2017 – CBC News reports that today Auditor General Bonnie Lysyk will reveal the results of her investigation into the government's Fair Hydro Plan. The report will look at how the rate cuts are financed and whether the plan is fair for taxpayers and hydro customers. Auditor Lysyk has already told a legislative committee in May that to borrow the money on OPG's books rather than the province's is "contrary to public sector accounting standards."

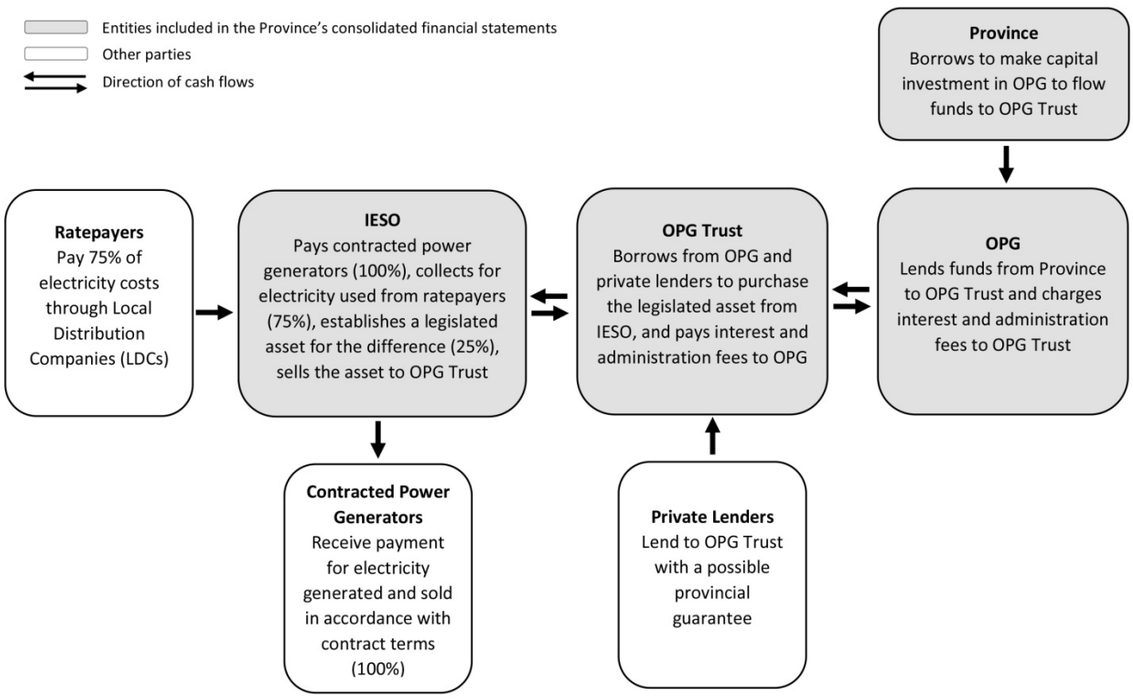
Updated by: Mark Donaldson, Director, Accounting Policy and Financial Reporting

Approved by:	**Name:**	**Date approved:**
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Corporate Issues Management Analyst. Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Corresp. & Media Relations	Amanda Miller	January 15, 2018
Assistant Director, Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 16, 2018

Appendix

Proposed Legislated Transaction Structure

Prepared by the Office of the Auditor General of Ontario



Pension Asset Accounting HBN January 15 2018.pdf

CONFIDENTIAL REVISED: January 5, 2018

PENSION ASSET EXPERT ADVISORY PANEL

ISSUE: How do you respond to the reports released by the Pension Asset Expert Advisory Panel?

KEY MESSAGES:

- The Pension Asset Expert Advisory Panel has released its independent advice and recommendations on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets.
- The panel's first report concluded that the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.
- The panel supports the accounting treatment that Ontario has used consistently since 2001.
- The panel has also issued a supplemental report that provides independent advice and recommendations on how to account for potential future net pension assets related to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The government has accepted the panel's recommendations and in the 2016-17 third quarter update, it indicated its plans to adopt the previous accounting treatment in the upcoming Public Accounts.
- The government has reflected the recommendations of the panel, which align with its previous accounting in the 2017 Budget, the 2016-17 Public Accounts and the 2017 Fall Economic Statement.

- The government formed the Pension Asset Expert Advisory Panel to provide independent advice on how public sector accounting standards are interpreted as they apply to current and potential future net pension assets. The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards.
- We will continue to move forward and present the Province's finances fairly and accurately, which includes reporting for jointly sponsored pension plans in accordance with Public Sector Accounting Standards and the panel's recommendations.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.

IF PRESSED: SUPPLEMENTAL REPORT HOOPP & CAATPP

- We thank the panel for their independent advice and recommendations made in relation to the Healthcare of Ontario Pension Plan and the Colleges of Applied Arts and Technology Pension Plan.
- The two additional pension plans addressed in the supplemental report are different than OTPP and OPSEUPP because they are jointly sponsored by multiple organizations. The Ontario Government is a third party sponsor and has no direct control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses. Because of these differences, a valuation allowance will be recorded for any net assets of these plans until the government benefits from a reduction in contributions.
- The Ontario Government agrees with the panel's conclusions in the supplemental report.

CURRENT STATUS:

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.
- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update. During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."
- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report. Chapter two of the report made recommendations regarding the Public Accounts of the Province, with the first of 10 recommendations focusing on the pension asset accounting issue. From the report: "We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months."
- On April 27, 2017 the Pension Asset Expert Advisory Panel's Supplemental Report was released. It provides the government with independent advice and recommendations on how to account for current and potential future net pension assets related to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- The panel's supplemental report concludes that a net pension asset from HOOPP and CAATPP should be recognized in the province's financial statements in the same way as the net liability, but also recommends that a valuation allowance should be reported for accrued benefit assets for both of these plans in the province's financial reports.
- The panel's report on the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Sector Employees' Union Pension Plan (OPSEUPP) was made available to the public on February 13, 2017 and did not recommend that a valuation allowance be reported for either of these two plans.
- Both reports have been shared with the Auditor General of Ontario and her office.

- In the 2017 Budget, the 2015–16 actuals were restated to reflect the government's previous accounting treatment for jointly sponsored pension plans which recognized net pension assets for the Ontario Public Service Employees' Union (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP) on the Province's financial statements. The restated results follow the advice of the panel and the accounting followed previously by the Province since 2001.
- On June 12, 2017, the Ontario Teachers' Federation and the Ontario Government, joint sponsors of the Ontario Teachers' Pension Plan (OTPP), announced they will use a portion of the $11.5 billion surplus in the Plan (as of January 1, 2017) to complete the restoration of inflation protection for teachers who retired after 2009. As well, the contribution rate for the Plan's active members will be reduced by 1.1%. Both changes are effective January 1, 2018.

COSTS

	Actuals		
Panel Member	**Per Diem**	**Travel**	**Total**
Patricia O'Malley	83,000	1,057	84,057
Uros Karadzic	62,700		62,700
Paul Martin		3,898	3,898
Murray Gold	38,000		38,000
Procurement			32,458
Total	**183,700**	**4,955**	**221,113**

BACKGROUND:

- On February 17, 2017 Minister Sandals sent a memorandum to Warren (Smokey) Thomas in response to his article of February 14, 2017 in the Toronto Sun on pension assets.

  "As you are aware, the Pension Asset Expert Advisory Panel ("Panel") released its report on February 13, 2017, and concluded that the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan should be recognized in Ontario's financial statements.

  The OPSEU pension plan, which is jointly-sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor. Simply put, the province does not have the ability to make any withdrawals from the plan.

  I trust that you are reassured by this news. Your February 14 press release and your subsequent comments in a February 15 *Toronto Sun* article, suggest that you were unaware of these rules.

  In addition, the province has not proposed any pension contribution increases or reductions at this time. Any decisions with respect to changes to pension contributions or benefits must be made by the Plan Sponsors. A decision to reduce contributions would benefit both the employees and the employer."
- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.

  The panel was comprised of accounting, legal, and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.

  The following four members were appointed to the Panel:

  - Tricia O'Malley (Chair)
  - Murray Gold
  - Uros Karadzic
  - Paul Martin

Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

The panel's report was delivered to the President of the Treasury Board and was shared with the Auditor General of Ontario. The panel's report was made public in early 2017.

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, "Independence is not infallibility when it comes to Ontario's financial books," arguing Auditor General "Lysyk's paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All's fair in politics and accounting, unless you're an auditor gone awry."

- December 17, 2017 – The Ottawa Sun's Lorrie Goldstein writes that "with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted." Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: "Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan."

- December 17, 2017 – The Toronto Sun's Jim Warren cautions that "the role of the Auditor General is shifting in troubling ways," arguing that the Auditor General's increasing outspoken role is "making matters worse." Specifically referencing the pension asset accounting issue, Warren writes "For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position."

- December 14, 2017 – The Record runs an opinion piece, "To sort out truth from pre-election fictions, turn to Bonnie Lysyk," writing that the Auditor General "warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car."

- December 13, 2017 – The Toronto Sun runs a comment piece, entitled "Liberals hiding deficit, second watchdog says" covering the Financial Accountability Officer's (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO's report "says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans."

  Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting."

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- September 13, 2017 – The Toronto Sun runs a column, "Wage warnings won't stop Wynne," critical of the cost of the Pension Asset Expert Advisory Panel: "Indeed, her government's typical reaction to critical, non-partisan warnings it gets from independent officers of the legislature - such as the auditor general and the FAO - is to ignore them, or to attack the messenger […]Wynne spent up to $435,000 striking an "independent" panel that unsurprisingly agreed with her position on pension accounting, not the auditor general's."
- September 8, 2017 – David Reevely writes in the Ottawa Sun and Ottawa Citizen "Lysyk and the ministers have been volleying back and forth for a couple of years now over how to count assets on the government books. Without getting too deep into it, what's in question is whether certain public sector pension plans and some holdings in the electricity system belong to the government or not."

- September 7, 2017 – The Canadian Press' Shawn Jeffords covers the tabling of Ontario's Public Accounts 2016-17, and cites the government's ongoing disagreement with the Auditor General on pension asset accounting as the reason the Auditor has issued a qualified audit opinion two years in a row. Minister Sandals is quoted in the article: Sandals maintains the government is following established accounting practices and people don't care about the on-going squabble. "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – The Toronto Star's Robert Benzie refers to the disagreement between the Auditor General and the government over IESO market accounts assets and pension asset accounting as an "accounting slugfest". Minister Sandals is quoted in the article (same quote as The Canadian Press coverage): Sandals on Thursday shrugged off Lysyk's accounting interpretation, which lead to her to issue a qualified audit opinion on the province's books for the second year in a row.

  "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said.

  "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 – Queen's Park Briefing's Christopher Reynolds covers the disagreement between the Auditor General and the government, quoting Minister Sandals: ""The public wants to know, are you managing your deficit?" Sandals said Thursday at the release of the province's 2016-217 public accounts. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- On May 1, 2017 David Reevely writes in the Ottawa Sun that "There's also $500 million booked in the government's favour from surpluses in a couple of pension plans for public employees. These are the subject of an arcane accounting dispute over whether the government, which couldn't grab the money easily, should be able to count them the way it's counting them. The auditor general says no. A panel of external blue-chip accounting types says yes (for a number of reasons, the easiest of which to grasp is that if the pension plans came up short the gap, would be the government's problem). Going with the auditor general's ruling would be the safer thing, for sure, but what the government's doing is neither trick nor a one-time manouevre.
- On April 30, 2017 David Reevely wrote about the 2017 budget and said "the Liberals are taking advantage of a surplus in some public-employee pension funds, which Auditor General Bonnie Lysyk says is improper but which other experts say is OK. And they've adopted a sort of partial distinction between operating spending and capital spending, which used to be mashed together into each year's budget in a way they no longer are."
- On February 21, 2017 the Toronto Sun (A10) has a column by Warren Thomas (OPSEU). He writes "Ontario's public service workers and retirees feel like we are about to get robbed." He notes that the Auditor General has been turned into a lapdog from a watchdog. Thomas writes "If nobody stands up to Wynne, I'm afraid her next move could be to actually steal our pension money, giving her more cash for overpaid consultants and Sunshine List executives."
- On February 20, 2017 the Toronto Sun reports on Minister Sandals' memo to OPSEU's Warren Thomas. It recounts the minister's statement that "government has no plans on making like a bandit with his members' pension funds." The short piece includes her quote: "The OPSEU pension plan, which is jointly sponsored by OPSEU and the province, clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". "I trust that you are reassured by this news."
- On February 18, 2017 the Toronto Sun has a piece by Lorrie Goldstein. He writes that Premier Wynne needs to take the advice of the Auditor General in order to demonstrate openness and transparency.

- On February 18, 2017 the Ottawa Sun (A9) reports NDP Leader Horwath trusts the Auditor General's math. She spoke up on Friday on the ongoing pension account issue between government and the AG.
- On February 18, 2017 the Toronto Sun's Antonella Artuso (A10) quotes Minister Sandals who said in a statement that she will accept the findings of the panel and: "They also concluded that the government controls access to the pension surplus which has a future economic benefit to the province and recognizing the asset will provide an accurate representation of the province's financial position."
- On February 18, 2017 the Toronto Star's Martin Regg Cohn (A12) writes about the Auditor General. He says that she is no hero – in fact her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures." He concludes: "We rely on auditors to provide value for money audits. Not to introduce their own values, making up untested accounting standards as they go along."
- On February 17, 2017 the Hamilton Spectator (A16) posted an opinion piece that is negative toward Auditor General Lysyk. It notes: "Lysyk is putting that reputation and integrity on the line in Ontario. And she's not on solid ground…. If the evidence supported Bonnie Lysyk's position, we'd be the first to back her. But it doesn't. She needs to respect that and back down."
- On February 17, 2017 QP Briefing has a piece written by Bryne Purchase, former deputy minister of finance, on the 'accounting spat'. He sides with the AG: "I think it was regrettable that Premier Kathleen Wynne's government chose to attempt to undermine the legitimacy of our parliament's own accounting expert by appointing a panel of its own experts to review an unfavourable ruling."
- On February 17, 2017 the Windsor Star (A7) has a Canadian Press report that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute. Auditor General Bonnie Lysyk's quote is used: ``Show me the letter that says you can use that pension money with permission, with an agreement," she said Thursday. ``Until that happens the bottom line is this office can't give its stamp of approval on this particular issue." The article notes this is not the first time the Liberal government has clashed with the AG - the former energy minister suggested the electricity file was too complicated for Lysyk, and she has frequently suggested that partisan ads are being funded by taxpayer dollars.
- On February 16, 2017 the Toronto Star reported the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes. The article says the AG is "escalating a $10.7 billion standoff" with the government over taxpayer-funded pension surpluses. "There has been no suggestion the government intends to dip into the pension funds, which would be illegal. The question is whether the pension surplus can be counted as an asset or not at all." The AG was quoted: "It is not my money. That money is for the benefit of employees and retirees … so it's not my pension. It's not my budget deficit."
- On February 16, 2017 QP Briefing reports the AG says that until she sees a letter that says government can use that pension money with permission – her office can't give its stamp of approval on this issue. The article notes the government "isn't inclined to draft" a letter. Treasury Board President Liz Sandals is quoted from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place." This article also includes quotes from MPP Lisa MacLeod and OPSEU's Warren Thomas.

- On February 16, 2017 the Toronto Sun (A5) has two articles on the number crunching aspect of the expert panel. It says government spent up to $435,000 to the expert panel in the dispute with the Auditor General. The article says this has made OPSEU's Warren Smokey Thomas livid and notes that he wants a guarantee the government won't raid his members' pension fund. Ontario Treasury Board spokesman Matt Ostergard is quoted from an email, "The work of the panel is ongoing so we don't have final costs at this time but they will be in line with previous panels and will be made public."
- On February 16, 2017 The Northumberland Today.com has David Reevely's opinion piece on the pension panel's "gift' to the government. "The Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds. The article includes a written statement from Minister Sandals "We are committed to implementing the advice of this independent panel and will use it in preparing the province's financial statements."
- On February 15, 2017 QP Briefing reports Treasury Board President Liz Sandals says it's too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute. "I think we're getting way ahead of ourselves – that's a total hypothetical," Sandals told reporters. "The bottom line is, the panel gave us advice, and we're going to follow the advice of the panel." Sandals added there "is no urgency" for Lysyk to weigh in on the panel's conclusion and that she was "pleased" that the auditor was giving it a thorough read. The article notes the minister was "cagey" when pressed about if the panel's report will mean a rollback on contributions for the OPSEU plan. She is quoted, "As the panel points out, that is the traditional way in which the government would access the surplus," "That's the whole premise of the panel's report, is that the way in which the government or any other employer in that situation would access the surplus is by reducing the contribution rate."
- On February 14, 2017 OPSEU's Smokey Thomas writes that Premier Wynne should remember who owns the assets of the province's jointly trusted public pension plans. He says the dispute between the government and the Auditor General is not "just a paper war". "It's a fight over who owns billions of dollars earned by workers and invested on their behalf. I'm telling the Premier right now: the money in those plans belongs to plan members. It is not hers to play with." He "unequivocally supports" the Auditor General's position. He says his "fear is that the Liberals will try to move money out of public pension plans to help wipe out the provincial deficit in time for the 2018 provincial election."
- On February 14, 2017 the Ottawa Sun's David Reevely (A11) reports "the Ontario Liberals have an extra $1.5 billion to spend between now and the next election and can still keep their promise to balance the provincial budget by 2018, thanks to a helpful ruling on how to handle surpluses in a couple of big provincial pension funds." His article notes, "The point is, we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets." He writes the surpluses work in the government's favour – especially as an election approaches.
- On February 14, 2017 the Toronto Star (A7) (and online) has a negative piece about the Auditor General, written by Martin Regg Cohn. He writes the AG has been caught out in a $10.7-billion miscalculation. "Even a watchdog can lose the scent and bark up the wrong tree. Or worse, miss the fiscal forest for the trees. For the job requires not just independence but context. To be truly credible, an auditor general must fearlessly expose government boondoggles but also fess up to her blunders." "Lysyk's lack of diligence - now overdue - is a damning indictment of an auditor gone awry."

- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: “Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: “If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- On February 13, 2017 the Toronto Star reported a panel of accounting experts says that $10.7 billion in government-sponsored pension plans should count toward the province’s bottom line. The article notes panel chair Tricia O’Malley said “We believe that an asset does exist – the net pension asset meets the definition of an economic resource, which is what an asset is.” The Star noted that Auditor General Lysyk is reviewing the report and will provide comment to the media later this week.
- On February 12, 2017 the Toronto Star reports a government-appointed panel of experts will announce on Feb. 13 that joint-sponsored pension surpluses should be counted as assets for the provincial treasury. The report says the Auditor General should include billions of dollars of its assets on the government’s bottom line. OPTrust says “surpluses and deficits should both be recognized on the province’s balance sheet.”
- On February 8, 2017 The Toronto Star (A6) reports Premier Wynne welcomes a report from four accounting experts that says a $10.7-billion pension surplus can be counted as an asset on the province’s bottom line. The article notes the AG was briefed on the report last week and it will be make public later this month. MPP Vic Fedeli is quoted: “The people of Ontario have to ask themselves who are they going to believe: the independent auditor general or a scandal-plagued Liberal government?”
- On February 8, 2017 QP Briefing reports the Financial Accountability Officers says “should the panel studying a pension accounting clash with the auditor general conclude that billions of dollars’ worth of pension assets should be counted on Ontario's balance sheet after all, the government will get more flexibility to balance the budget as promised.” “David West, the FAO's chief economist, said he had not heard about any conclusions from the panel but noted that if they have decided to count the pension assets, it gives the government more breathing room to achieve balance, as promised.” Auditor General Lysyk declined to confirm or comment directly because the panel is not yet public.
- On February 7, 2017 The Toronto Star’s (A4) Martin Regg Cohn reports billions of dollars are at stake in a dispute pitting Ontario's Auditor General against the government. He writes that despite an outside panel of top accounting and pension experts determining that Auditor General Bonnie Lysyk has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets – she told this reporter that “she won't climb down,” and this now sets the stage for a public showdown over an accounting change that is worth $1.5 billion to the bottom line this year alone. “The auditor told me her mind is made up and nothing she has heard so far has changed her view….which leaves her on a limb and the government in the lurch.”
- On November 30, 2016 QP Briefing reported Minister Sandals appointed an expert panel to help resolve the government's standoff with the Auditor General over pension assets. The chair of the special panel tasked with settling an accounting dispute will be paid $2,000 per work day. The other three members of the panel will get a $1,900 per diem, as well as reimbursement.
- On November 14, 2016 QP Briefing reported an expert panel will study the AG pension dispute.

- On October 9, 2016 Focus Ontario (Global) ran a segment on the 2015-16 Public Accounts and the disagreement with the Auditor General. Both the Premier and Patrick Brown are quoted in the segment. The Premier is quoted from Question Period saying the government “accepted the Auditor General's numbers for this year. We released the documents despite the divergence in accounting opinions, specific to pension funds between Treasury Board officials and the Auditor as part of our commitment to openness and be transparency.”
- On October 9, 2016 The Toronto Sun (A17) ran an opinion piece about the disagreement with the Auditor General. The piece notes that this kind of back and forth between ministries and the Auditor General is common. The Auditor General provides time for ministries to comment on the audit in draft form so that accounting issues can be hashed out before the final audited statement is presented to the legislature. Accounting issues are generally benign. So it's surprising that the Wynne government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's unqualified opinion.
- On October 6, 2016 The Financial Post has a commentary by analysts with the Fraser Institute. “It's not surprising the Wynne government is willing to go to the mat to defend its estimate of last year's budget deficit. As Ontario approaches a provincial election in 2018, a big part of the government's PR strategy is focused on celebrating an expected return to a balanced budget in next year's budget. So Premier Kathleen Wynne's team has a big incentive to push back against dissenting views.”
- On October 6, 2016 QP Briefing reports Treasury Board President Liz Sandals tabled Ontario's public accounts for fiscal 2015-16, including the Auditor General's opinion. The tabling of the public accounts was delayed by almost two weeks after months of back and forth between the Auditor General and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- On October 3, 2016 The Globe and Mail reports Ontario's Liberal government is fighting with the province's Auditor General over a $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt.
- On October 3, 2016 Canadian Press ran a story in 40 media outlets reporting that the government says Auditor General Bonnie Lysyk is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years. “The issue is with the accounting of the Ontario Public Service Employees Union Pension Plan and the Ontario Teachers' Pension Plan, which are jointly sponsored with the government. The government says the plans have a surplus, but the auditor general says that should not be on the province's balance sheet.”

Prepared by: Jim Keates, Senior Accounting Policy Analyst, Accounting Policy and Financial Reporting. July 21, 2017

Approved by:	**Name:**	**Date Approved:**
Director	Nadine Petsche/Mark Donaldson	July 31, 2017
ADM, Office of the Provincial Controller	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications	Alisha Tharani	January 5, 2018
A/Manager, Issues Management, Communications	Amanda Miller	January 15, 2018
Assistant Director, Communications	Bryant Sullivan	January 16, 2018
Director, Communications	Sofie Di Muzio	January 16, 2018

Public Accounts HBN January 23 2018.pdf

CONFIDENTIAL REVISED: January 10, 2018

2016-17 PUBLIC ACCOUNTS

ISSUE: What is reported in the 2016-17 Public Accounts released on September 7, 2017?

KEY MESSAGES: PUBLIC ACCOUNTS

- The 2016-17 Public Accounts of Ontario show the province's deficit is $991 million.
- This result is $3.3 billion lower than projected in the 2016 Budget, and $0.5 billion lower than the interim forecast in the 2017 Budget.
- This is a result of growth in revenue that exceeded growth in program expense, and lower than forecast interest on debt.
- Ontario has beaten its deficit target eight years in a row. Ontario's plan is working.
- As promised in the 2016 Budget, Ontario grew its economy while transforming healthcare, building vital infrastructure and investing in people's talents and skills.
- Due to our prudent fiscal management and Ontario's robust economic growth, we are projecting a balanced budget for the first time since the onset of the global recession in 2008.
- We remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- This is something that has been achieved only eight times in the last 40 years in Ontario.
- We will continue moving forward on our fiscally responsible plan that creates fairness and opportunity for all Ontarians.

KEY MESSAGES: OTHER HIGHLIGHTS

- We will continue to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.
- We also remain on track to balance the budget this fiscal year as well as in 2018–19 and 2019–20.
- Other highlights from this year's Public Accounts include:
    - Economic growth, with a 2.7 per cent increase in real gross domestic product (GDP), up 2.2 per cent in the 2016 Budget.
    - Total revenue of $140.7 billion, up $2.2 billion from the 2016 Budget.
    - Total spending of $141.7 billion, down $0.1 billion from the 2016 Budget.
    - Interest on debt of $11.7 billion, down $0.7 billion from the 2016 Budget.
- To help Ontarians better understand their government's finances, new digital tools have been developed that present the Public Accounts data in innovative, visual formats. These tools make Ontario's finances easier to understand, access and use.
- Presenting the Public Accounts data in innovative, visual formats is part of Ontario's commitment to Open Government.

KEY MESSAGES: ACCOUNTING CHANGES

BPS REVENUE PRESENTATION

- To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges, such as tuition fees, patient fees, research grants and donations, with provincial revenue.
- In prior years, these revenues were netted against the expenses of the respective sectors (health, education, post-secondary).
- This is a change in presentation only; the change increases total revenues and expenses by approximately $8 billion, and does not impact the deficit, net debt or accumulated deficit.
- This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.
- The Auditor General is supportive of this change in presentation.

ACCOUNTING FOR ENERGY GOVERNMENT BUSINESS ENTERPRISES:

- The 2016-17 Public Accounts include the financial results of Ontario Power Generation (OPG) and Hydro One using International Financial Reporting Standards (IFRS).
- These two government business enterprises currently report their stand-alone financial results using Generally Accepted Accounting Principles in the United States (US GAAP).
- In prior years, the reported results of OPG and Hydro One were included in the results of the province based on US GAAP.
- This change does not have a material impact on this year's Public Accounts.
- The Auditor General is supportive of this change in presentation.

PENSION ACCOUNTING:

- The government established the Pension Asset Expert Advisory Panel following the release of the 2015-16 Public Accounts.
- The Panel delivered independent advice on how public sector accounting standards are interpreted as they apply to current net pension assets and the application of public sector accounting standards for two of Ontario's jointly sponsored pension plans; Ontario Teachers' Pension Plan (OTPP); and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The Panel's report concluded that the province's share of the net pension assets of both the OTPP and the OPSEUPP should be recognized in Ontario's financial statements.
- The government accepted the Panel's recommendations, which have been reflected in the 2016-17 financial statements.
- The 2015-16 financial statements have also been restated to reflect the pension assets for these two plans.
- The Auditor General continues to not accept the application of the Public Sector Accounting Board (PSAB) standards in the 2016-17 Public Accounts regarding pension accounting for the province's jointly sponsored pension plans. For 2016-17, the Auditor General has qualified her opinion, stating that the province's deficit is understated by $1.4 billion.

KEY MESSAGES: IESO ACCOUNTING

- The Independent Electricity System Operator (IESO) reports its financial results in accordance with Public Sector Accounting Standards.
- In 2016, IESO changed its accounting policy to begin recognizing market assets (amounts due *from* power distributors) and liabilities (amounts due *to* power generators). In previous years, these amounts were omitted from IESO's financial statements.

- This change has no impact to the province's annual deficit, net debt or accumulated deficit.
- IESO also adopted rate-regulated accounting for deferred charges, such as the cost of smart meters, which will be recovered from users of these meters over time.
- Public Sector Accounting Standards are silent on rate-regulated accounting, and as a result, as provided for in the accounting standards, IESO considered other sources of guidance to assess the appropriateness of applying rate regulated accounting.
- Prior to the 2015 merger with the IESO, the Ontario Power Authority (OPA) reported market accounts and used rate-regulated accounting under PSAS. The statements of the OPA were not qualified during that time by OPA's external auditor or the Auditor General. This accounting treatment is not new to Ontario.
- The Auditor General qualified her opinion in 2016-17 based on the recognition of the IESO's market accounts. The Auditor General also noted in her opinion that the use of rate regulated accounting under PSAS is not permitted, but did not qualify on the issue of rate regulated accounting, as the impact was not material in the current year.
- The reporting changes implemented by the IESO were approved by their management and board, and received an unqualified audit opinion from their external auditor. The province's Office of the Provincial Controller also supports the changes.

KEY MESSAGES: AUDITOR GENERAL'S 2017 ANNUAL REPORT – CHAPTER ON PUBLIC ACCOUNTS

- The government thanks the Auditor General for her recommendations, and remains committed to assisting the Office of the Auditor General in providing its independent views to the Legislative Assembly.
- The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and

accurately and in accordance with Canadian Public Sector Accounting Standards.

- The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- The province will continue to provide financial statements according to Canadian Public Sector Accounting Standards that support transparency and accountability in reporting to the public, the legislature, and other users.
- The government will continue to build on its track record of responsible fiscal management.

CURRENT STATUS

- December 20, 2017 – the Treasury Board Secretariat (TBS) has been called to appear before the Standing Committee on Public Accounts (SCOPA), to review Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario). In addition to officials from TBS, requests to attend were issued to officials from Cabinet Office, the Ministry of Finance, the Ontario Financing Authority, the Ministry of Energy, the Independent Electricity System Operator and Ontario Power Generation. Attendees will be required to provide the committee with a response to the Auditor General's report, and to answer any questions the committee members may have. Hearings are scheduled for February 28, 2018.
- As per Standing Order 108(h), the SCOPA is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Auditor General and the Public Accounts, which documents shall be deemed to have been permanently referred to the committee as they become available.
- The committee may meet weekly when the Legislative Assembly is sitting. With the approval of the House, it may also meet at any time when the Legislative Assembly is not sitting.
- All meetings are open to the public with the exception of those dealing with the setting of the committee's agenda and the preparation of committee reports.
- All public committee proceedings are recorded in Hansard.

BACKGROUND:

- The Public Accounts of Ontario is a key accountability and transparency document in the government's financial cycle. It's a look back that compares Ontario's actual performance to what was planned in the Budget.

- The Public Accounts present the financial statements of the Province, provide financial highlights of the past fiscal year, and report on performance in priority areas.

- Public Accounts is audited by the Auditor General and is typically released in the fall of the following fiscal year.
- When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

- These changes include:
    - **Accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
    - **Accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.
    - **Accounting for the Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
    - **Accounting for net pension assets of jointly sponsored pension plans** - the Province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

Pension Asset Expert Advisory Panel

- On November 10, 2016 Ontario established the Pension Asset Expert Advisory Panel to provide independent advice and recommendations to the government on the application of public sector accounting standards to Ontario's net pension assets.
- The Panel was comprised of accounting, legal and pension experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards.
- The Panel members were:
    - Tricia O'Malley; (Chair)
    - Murray Gold;
    - Uros Karadzic; and,
    - Paul Martin.
- Panel members also provided advice on how to value net pension assets reported on the province's books, taking into account future decisions which might be made by the plan's sponsor or sponsors.

- The Panel issued its report in February 2017. Upon receiving the report, the government, supported by its own research and analysis, accepted the Panel's recommendation and has reported the pension assets of the Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP) in its 2016-17 consolidated financial statements (with restatement of 2015-16).
- The Panel issued a supplementary report in March 2017 with respect to the Healthcare of Ontario Pension Plan (HOOPP) and Colleges of Applied Arts and Technology Pension Plan (CAATPP) recommending that a full valuation allowance be recorded on the net assets of both of these plans, based on the difference in governance structure between these plans and OTPP and OPSEUPP. The province agreed and has recorded a valuation allowance for CAATPP in the year (amount is not material). The HOOPP plan is not in a net asset position for accounting purposes at March 31, 2017.

Independent Electricity System Operator

- The Independent Electricity System Operator (IESO) is a not-for-profit, non-taxable corporation established pursuant to Part II of the *Electricity Act, 1998*. The Ontario Power Authority and the IESO merged on January 1, 2015.
- One of IESO's roles is to settle the market accounts, which are the amounts due to the entities that provide electricity to the market (e.g. power generators) and due from those who consume electricity (e.g. local distribution companies on behalf of their consumers).
- Rate regulated accounting is appropriate where the rates an entity is able to charge to its customers are set by another party (i.e. a regulator), provided specified criteria are met. Rate-regulated accounting permits the entity to defer costs that would otherwise be expensed to the period that the related revenue is charged to customers. Costs able to be deferred by the IESO include:
    - Unrecovered smart metering expenses; and,
    - Unrecovered pension and post-employment benefits related to PSAB transition.
- During 2016, IESO made two accounting changes (1) to recognize the market accounts in its financial statements – these amounts were not previously recognized in the IESO's financial statements, and (2) to apply rate-regulated accounting.
- The IESO received an unqualified audit opinion from KPMG (their external auditor) with respect to the financial statement presentation in their 2016 audited financial statements. IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor, and the Office of the Provincial Controller all support the recognition of the market accounts and the use of rate-regulated accounting by IESO.

Revenue Highlights

Against the Restated 2016 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $2.2 billion higher than forecast in the 2016 Budget. This was largely due to higher than projected taxation revenues, non-provincial source revenues from hospitals, school boards and colleges, and income from GBEs, partially offset by lower than projected Government of Canada transfers and other non-tax revenue.

Against the Restated Interim Estimates in the 2017 Budget:

- Revenues for 2016-17 came in at $140.7 billion, or $0.6 billion lower than the interim forecast in the 2017 Budget. This was largely due to lower than projected taxation revenues and Government of Canada transfers, partially offset by higher than projected income from GBEs.

Expense Highlights

Against the Restated 2016 Budget plan:

- Total expense in 2016-17 was $141.7 billion, or $0.1 billion lower than forecast in the 2016 Budget plan. Program spending was $130.0 billion, up by $0.6 billion from a planned spending of $129.4 billion and interest on debt was $11.7 billion, lower by $0.7 billion from planned interest cost of $12.4 billion. Program spending was higher by $0.6 billion largely due to higher than projected spending in the health, community and social services, justice sector and general government and other.

Against the Restated interim Estimates in the 2017 Budget:

- Total expense in 2016-17 was $141.7 billion or $1.1 billion lower than the interim forecast in the 2017 Budget. Program spending was $130.0 billion, $0.9 billion lower than the interim forecast of $130.9 billion in the 2017 Budget. Interest on debt was $11.7 billion, lower by $0.2 billion from planned interest cost of $11.9 billion. Program spending was lower by $0.9 billion largely due to lower than projected spending in the health and education sectors, and other programs.

Net Debt

- Net debt as of March 31, 2017, was $301.6 billion, which was $6.7 billion lower than forecast in the 2016 Budget. Net debt grew by $6.2 billion during the year, representing a $6.6 billion increase in liabilities that was partially offset by a $0.4 billion increase in financial assets.

Auditor General's 2017 Annual Report: Chapter on Public Accounts

- On December 6, 2017, the Office of the Auditor General released their 2017 Annual Report.
- The Auditor General's Annual Report, Chapter 2, makes 10 recommendations regarding the Public Accounts of the Province.
- The recommendations largely reflect opinions that have been expressed in previous reports, including the Auditor General's audit opinion in the 2016-17 Public Accounts and the Special Report on the Fair Hydro Plan.
- Treasury Board Secretariat and Ministry of Finance disagree with the characterization of the majority of the recommendations, and re-iterate the government's commitment to producing high-quality financial statements on a timely basis and in accordance with Canadian Public Sector Accounting Standards (PSAS).

Financial Accountability Office's Economic and Fiscal Outlook, Fall 2017 Update

- On December 11, 2017, the Financial Accountability Office released its Economic and Fiscal Outlook, Fall 2017 Update.
- During the media event, the FAO said "since the government has not adopted the Auditor General's recommended accounting for both the Fair Hydro Plan and net pension assets, it is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

RECENT MEDIA COVERAGE:

- January 12, 2018 – The Toronto Star ran an opinion column by Martin Regg Cohn, “Independence is not infallibility when it comes to Ontario’s financial books,” arguing Auditor General “Lysyk’s paranoia about partisan advertising is a depressing case study on how she approaches the vital role of an auditor general, which is meant to be a check and balance on the power of government — not a grudge match grounded in distortions over picayune disputes. All’s fair in politics and accounting, unless you’re an auditor gone awry.”
- January 9, 2018 – The Toronto Sun runs a column by Ben Eisen, director of the Fraser Institute’s Ontario Prosperity Initiative entitled “Ontario’s finances are still a mess.” Eisen argues that people should treat the government’s balanced budget claims with skepticism, writing “For starters, many analysts, including Ontario Auditor General Bonnie Lysyk, have called the government’s accounting techniques into question, arguing proper accounting would show continued deficits. Others, including the government’s Financial Accountability Office, warn that without additional policy changes to reduce spending, or raise taxes, Ontario will likely slip back into deficits.”
- December 17, 2017 – The Ottawa Sun’s Lorrie Goldstein writes that “with less than six months to go before the June 7 election, two independent, non-partisan financial watchdogs of the Ontario Legislature say the books of Premier Kathleen Wynne's Liberal government cannot be trusted.” Goldstein highlights the disagreement between the Auditor and the government on the pension asset accounting issue, also noting the expert advisory panel: “Lysyk argues the government is improperly claiming the $11.5 billion surplus in the Ontario Teachers' Pension Plan as an asset, because it cannot access these funds without the permission of Ontario's teacher unions […] In November 2016 it hired what it described as an expert, four person pension advisory panel, with a budget of up to $435,000 for salaries, excluding expenses, which in February 2017 backed the government's accounting on the teachers' pension plan.”
- December 17, 2017 – The Toronto Sun’s Jim Warren cautions that “the role of the Auditor General is shifting in troubling ways,” arguing that the Auditor General’s increasing outspoken role is “making matters worse.” Specifically referencing the pension asset accounting issue, Warren writes “For the first time in 16 years, Lysyk in 2016 decided to change her office's opinion on how the Ontario government presents pension assets in the audited financial statements and fought the government's claim it had balanced the budget in 2017-18. Wynne's Liberals asked an independent expert panel to determine the appropriate accounting treatment of the pension assets and they sided with the government. Lysyk provided her advice to the government and that should have been the end of it. Instead, in her latest annual report she rehashed the same issue and has gone from proving independent oversight to being an advocate for her own position.”
- December 14, 2017 – The Record runs an opinion piece, “To sort out truth from pre-election fictions, turn to Bonnie Lysyk,” writing that the Auditor General “warned that the Liberal government is making its financial position look rosier than it really is in part because it has counted as government assets two pension plans, including the plan of Ontario's teachers. That's extremely sketchy accounting practice. The teachers' pension plan is an independent organization and not owned by the provincial government. For the government to claim it as an asset is as dishonest as if you were to apply for a bank loan and, when you were asked to show what assets you own, telling the bank that you actually own your neighbour's home and car.”
- December 13, 2017 – The Toronto Sun runs a comment piece, entitled “Liberals hiding deficit, second watchdog says” covering the Financial Accountability Officer’s (FAO) fiscal outlook report. The article highlights the pension asset accounting issue, writing that the FAO’s report “says these projections are based on weaker revenue growth and the Wynne government's rejection of "the Auditor General of Ontario's recommended accounting treatment for both the government's Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans." Defying the auditor general, the Wynne government hired what it called an expert panel, which endorsed its pension accounting.”

- December 12, 2017 – The Canadian Press reports on the Financial Accountability Officer's (FAO) fiscal outlook report, writing that the report says "a long simmering accounting dispute between the Liberal government and Auditor General Bonnie Lysyk over how to count two public-sector pension plans is contributing to uncertainty."
- December 12, 2017 – The Toronto Star's Robert Benzie reports on the Financial Accountability Officer's (FAO) fiscal outlook report, noting that the FAO adopts the Auditor General's accounting treatment of pension assets, resulting in a $4 billion deficit in 2017-18, "even though the Liberals maintain the books are in the black."
- December 12, 2017 – Ottawa Citizen's David Reevely also reports on the FAO report, writing: "We're up to three different versions of the provincial government's books, depending on how you count surpluses in a couple of public pension funds and money the government is borrowing to lower electricity prices temporarily. Without getting into the weeds on these disputes, the Liberals want to run the numbers in a way that makes them look good and they're not obviously wrong, but all the government's independent officers with anything to say about it - the auditor general, the financial accountability officer - say what they're doing is not OK."
- December 7, 2017 – Following the release of the Auditor General's 2017 Annual Report, the Toronto Star's Robert Benzie and Rob Ferguson outline the Auditor's various recommendations for the government. On the pension asset accounting front, the reporters write: "Even though a government-appointed expert panel of accountants concluded she is wrong about excluding the publicly owned assets of two joint-sponsored pension plans on the government's bottom line, Lysyk continues to claim she is in the right on the actuarial tiff."
- December 7, 2017 – CBC, The Star, and other news outlets report on the Auditor General's 2017 Annual Report, referencing the ongoing "accounting disagreements" between the Auditor General and the government, including reference to IESO accounting and pension asset accounting.
- October 25, 2017 – In follow-up to the release of the Auditor General's special report on the Fair Hydro Plan, the Toronto Sun runs a column "Number's up for Wynne's government," using disagreement regarding pension asset accounting as support for the Fair Hydro Plan not being the first time the government and the Auditor General have disagreed: Last year, the government and the auditor general publicly disagreed over the appropriate way to treat assets held by public pension plans. That dispute had implications for the important question of whether the government would post a balanced operating budget, or a deficit, this year."
- October 18, 2017 – The Toronto Star's Martin Regg Cohn writes "Watch out for watchdogs who don't like being watched," commenting "The last time Lysyk attacked the government's deficit calculations, an outside panel of experts rejected her arguments- because not even an auditor can make a surplus disappear from a balance sheet. There is no permanent arbiter for auditors, but Lysyk is no longer the last word on accounting disputes - merely one of many voices, right or wrong. Expect that voice to grow louder next year when she formally assesses the 2018-19 spring budget - and once again challenges Liberal claims of deficit elimination."
- November 15, 2017 – Ontario PC Finance Critic Vic Fedeli pens a column in the Toronto Sun on the Fall Economic Statement, making reference to the Auditor General's qualified audit opinion on the province's Public Accounts two years in a row.
- October 16, 2017 – CBC News looks to the province's Public Accounts to highlight "Four surprising things about the Ontario government's finances," including: "personal income tax revenue is dropping," "corporate tax revenue is soaring," a "real estate windfall," and "booze revenue poised to top gambling revenue."
- September 8, 2017 -- Post Media's David Reevely quotes the AG's statement that rejects the contents of the Public Accounts "The Legislature and all Ontarians must be able to rely on the province's consolidated financial statements to fairly report the fiscal results for the year. This year they cannot do so." The article mentions the FAO's commentary this week saying the FAO and AG have 'made a businesslike routine of pointing out all the extreme assumptions and accounting stretches the

government is using to make the books look good in an election year." The article concludes that considering what happened to the world economy a decade ago the government has 'done all right' but is critical of 'dismissing' the government's two most prominent independent financial experts. **Minister Sandals** mentioned in reference to releasing the PA.

- September 7, 2017 -- Toronto Star says the "stakes are high in the accounting slugfest between the government and the auditor general." The article mentions Minister Sandals "shrugging off" the AG's accounting interpretation. "The experience last year was the books were qualified on the same issue and it didn't impact the credit ratings," the treasury board president said. "Quite frankly, I don't think the public is terribly hung up on accounting disagreements."
- September 7, 2017 -- QP Briefing reports financial watchdogs aren't smiling about the government lowering the deficit to $1 billion, but instead are 'baring their teeth'. The article says auditor general Bonnie Lysyk said yesterday the government "significantly understated" its deficit, while the Financial Accountability office this week called the plan to reduce the debt burden "unlikely." Minister Sandals is quoted "The public wants to know, are you managing your deficit?" "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The article also notes AG Lysyk is warning that the complex accounting behind the hydro bill reduction could add to a bigger than expected deficit next year, and that a special report will be tabled this fall.
- September 7, 2017 -- The CP article about Public Accounts quotes Minister Sandals "The public wants to know, are you managing your deficit?" she said. "Is your deficit getting smaller? Are you going to balance the budget this year? Quite frankly, I don't think the public is terribly hung up on accounting disagreements." The coverage says AG Lysyk disputes the government figures and that "the statements were not prepared following Canadian Public Sector Accounting Standards." This article was picked up by several media outlets but coverage was not widespread.
- February 20 & 21, 2017 -- Toronto Sun report on Minister Sandals' memo to OPSEU that "the OPSEU pension plan….clearly states that no amount of the surplus shall be paid out of the plan to either sponsor". This is followed by a column by OPSEU President Warren Thomas saying Ontario's public service workers and retirees feel like we are about to get robbed.
- February 18, 2017 – Toronto Star, Toronto Sun and Ottawa Sun coverage of the ongoing pension accounting issue between the government and Auditor General.
    - Ottawa Sun says NDP Leader Horwath trusts the Auditor General's math.
    - Toronto Sun quotes Minister Sandals who said in a statement that she will accept the findings of the panel.
    - Toronto Star columnist Martin Regg Cohn wrote that the Auditor General is no hero, and her "bizarre claim turns out to be a sideshow, designed to cover up her own miscalculations after an outside panel of experts found the auditor herself had conflated facts and confused figures."
- February 17, 2017 -- Hamilton Spectator, QP Briefing, and Windsor Star have coverage.
    - The Spectator's opinion piece is negative toward Auditor General Lysyk.
    - QP Briefing's piece written by Bryne Purchase, former deputy minister of finance, sides with the AG.
    - Windsor Star published the CP story that says the AG is not satisfied after the expert panel's report on the $10.7 billion pension dispute and that she is asking to see "the letter that says you can use that pension money with permission, with an agreement."

- February 16, 2017 – The Toronto Star, Toronto Sun & QP Briefing have coverage of the Auditor General's response to the panel's report.
    - The Toronto Star and QP Briefing say the Auditor General is demanding proof in writing from the unions that they are okay with the government using taxpayer-funded pension surpluses for accounting purposes and describes it as an "escalating a $10.7 billion standoff".
    - QP Briefing quotes Minister Sandals from her statement: "They (the panel) concluded that the government does not need a letter from either of the unions because the joint pension agreements spell out how the surplus will be dealt with. They also concluded that there are no public-sector accounting standard requirements for any additional letter to be in place specifying when or by how much contributions will be reduced beyond the joint pension plan agreements already in place."
    - The Toronto Sun has two articles on the number crunching aspect of the expert panel and that the government spent up to $435,000 on it. OPSEU's Warren 'Smokey' Thomas was livid and notes that he wants a guarantee the government won't raid his members' pension fund.
- February 15, 2017 -- QP Briefing quotes Minister Sandals about it being too soon to weigh in on what might happen if the Auditor General stands her ground in the pension accounting dispute.
- February 14, 2017 – high profile media coverage of the Pension Asset Expert Advisory Panel report release the day before.
    - Toronto Star columnist Martin Regg Cohn is critical of the Auditor General saying she has been caught out in a $10.7-billion miscalculation.
    - The Star's coverage also included article about the panel report and that $10.7 billion in government-sponsored pension plans should count toward the province's bottom line.
    - The Ottawa Sun's David Reevely says about the panel report "…we're talking serious money - the stakes in what's otherwise the most arcane public-accounting battle ever to spill out of a comptrollers' seminar and into the streets."
    - OPSEU's Smokey Thomas writes that the dispute between the government and the Auditor General is not "just a paper war" and that he "unequivocally supports" the AG's position.
- On February 13, 2017 QP Briefing reports the government has accepted the panel's conclusion that pension surpluses are assets. The Auditor General's stance won't be known until later in the week. The article includes comments from Tory finance critic Vic Fedeli: "Basically, they've gone out and hired people whose findings would be more convenient for them ... They have appointed a private panel of auditors to come to the province's conclusion." OPSEU president Warren (Smokey) Thomas said he's concerned the panel's conclusion was politically motivated: "If I was going to fall on a side of advice, I'd fall on the advice of the auditor general," he said. "The government has gone to extraordinary length to have somebody try to disagree and discredit the auditor general."
- February 7 & 8, 2017 – Toronto Star and QP Briefing have coverage about the pension asset advisory panel's soon-to-be-released report.
    - PC Finance Critic Vic Fedeli tells the Star, that the people have to ask themselves who they are going to believe-- the independent auditor general or a scandal-plagued Liberal government?"
    - Columnist Martin Regg Cohn writes the AG has gone out on a fiscal limb by effectively wiping away nearly $11 billion in government assets and she won't climb down.
- November 14 & 30th, 2016 -- QP Briefing has coverage of the expert panel announced to study the accounting dispute over pension assets.

- October 9, 2016 -- Focus Ontario (Global tv) and the Toronto Sun have coverage of the 2015-16 Public Accounts and the disagreement with the Auditor General.
    - Focus Ontario coverage balanced.
    - Toronto Sun opinion piece expresses surprise that the government elevated the tussle over pensions to the political realm by tabling the financial statements without the Auditor General's opinion.
- October 6, 2016 -- The Financial Post has a highly critical commentary by analysts with the Fraser Institute, while QP Briefing reports the public accounts for 2015-16 have been tabled almost two weeks after months of back and forth between the auditor general and the government over whether the bottom line should include assets for two jointly-sponsored provincial pension plans.
- October 3, 2016 -- The Globe and Mail and Canadian Press report the government is 'fighting' with the Auditor General. Globe notes focuses on the AG's $1.5-billion discrepancy in last year's deficit and a $10.7-billion difference in Ontario's net debt. CP story (picked up by 40 media outlets) says the Auditor General is taking issue with their pension asset accounting, though it says these are rules that have been used for the past 14 years.

Prepared by: Bharat Patel, Office of the Provincial Controller Division
Reviewed by: Mark Donaldson, Office of the Provincial Controller Division

Approved by:	**Name:**	**Date Approved:**
ADM, Office of the Provincial Controller Division	Cindy Veinot	January 3, 2018
Issues Management Analyst, Communications Branch	Alisha Tharani	January 10, 2018
A/Manager, Issues Management, Correspondence and Media Relations	Amanda Miller	January 15, 2018
Assistant Director, TBS Communications Branch	Bryant Sullivan	January 16, 2018
Director, Communications Branch	Sofie Di Muzio	January 24, 2018

Appendix

Preparation and Tabling:

The Public Accounts for each fiscal year are prepared under the direction of the President of Treasury Board, as required by the *Financial Administration Act*.

The Public Accounts of Ontario consist of the Annual Report and three supplementary volumes. The Annual Report includes the province's audited consolidated financial statements and a financial statement discussion and analysis section. Supplementary information is contained in three volumes:

Volume 1: Ministry statements for expenses, assets, revenue, detailed debt and other supplementary schedules. It provides a comparison of appropriations with actual spending.

Volume 2: Financial statements of significant provincial corporations, boards, commissions that are part of the government's reporting entity, and other miscellaneous statements.

Volume 3: Detailed schedules of payments made by ministries to vendors and transfer payment recipients.

The *Financial Administration Act* requires the President of Treasury Board to submit the province's Annual Report and consolidated financial statements to the Lieutenant Governor in Council (LGIC) on or before 180 days after fiscal year-end. This year, the deadline was September 27, 2017.

The process for release of the Public Accounts is as follows:

- The Public Accounts are approved by the Lieutenant Governor in Council.
- The LGIC lays the Public Accounts before the Assembly, if the Assembly is in session, and the Public Accounts are then released on the same day.
- If the Assembly is not in session on the day of the release of the Public Accounts the LGIC is required to make the Public Accounts public and the Public Accounts are laid before the Assembly <u>on or before</u> the tenth day of the next session.

SCOPA_Agenda and Logistics Overview_20180205.pdf

LOGISTICS & FORMAT OVERVIEW

Overview

- SCOPA meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports. All public committee proceedings are recorded in Hansard.
- The Chair will advise members to consider questions that are relevant to the content of the Auditor General's Annual Report, but in practice members do sometimes ask questions outside of the report's focus. As a general rule, expect that any question related to the Province's financial statements would be ruled within scope by the committee chair.
- The Committee members may ask that ministries provide details after the session if more research or gathering of information is needed to respond to a question.

Agenda

Wednesday, February 28, 2018
Committee Room 151 (Amethyst Room), Main Legislative Building

Time	*Topic*
9:00 a.m.	Closed Session: Briefing by the Auditor General
10:00 a.m.	Briefing by the Research Officer
10:15 a.m.	RECESS
12:30 p.m.	Treasury Board Secretariat and other representatives • *Invited senior officials appear and respond to questions.* • *The Auditor General attends, and the Committee members can seek clarification from the AG on points from her report if needed during the session.*

12:30 – 3:00 p.m.

- **Opening remarks** (20 minutes)
- **First round of questions** (60 minutes)
  - Each of the three political parties get 20 minutes of questions
- **Second round of questions** (50 minutes, approximately)
  - The remaining time until 2:45 p.m. is split between the three political parties; approximately 15-17 minutes per party

- **Closed session** (15 minutes)
  - Committee members plus the Clerk, only; no audience or presenters
  - The Committee will discuss the outcome of the meeting and if they want to do a report
  - There are no closing statements from ministry officials

Room Setup

- Committee Room 151 (Amethyst Room) is equipped with cameras and the meeting will be available on TVs within the Legislature and streamed online.
- The room has a square table with rows of extra seating at the front the room.
- The Committee Chair, Auditor General and Clerk will sit at the head of the table with the government and opposition parties on opposite sides.
- The invitees sit opposite the Committee Chair and Clerk, either at the table or in the first row of chairs.

Media Access

- Media are allowed to sit in on the meeting as long as they do not interrupt the proceedings. They cannot ask questions in the committee room, but if they wish they can scrum participants in the hallway as they leave.
- Media can also watch SCOPA proceedings on the TVs in the Legislature or online.

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Invitees

Organization	Position	Name
Cabinet Office	Secretary of Cabinet	Steve Orsini
Treasury Board Secretariat	Deputy Minister	Helen Angus
Ministry of Finance	Deputy Minister	Scott Thompson
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ministry of Energy	Deputy Minister Assistant Deputy Minister	Serge Imbrogno Steen Hume
Ontario Power Generation	President and Chief Executive Officer Senior Vice President and Chief Financial Officer	Jeffrey Lyash Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer Vice President, Corporate Services and Chief Financial Officer	Peter Gregg Kimberly Marshall

DRAFT

Ministry/Organization Representatives to Attend

Organization	Position	Name
Treasury Board Secretariat Deputy Minister's Office	Deputy Minister	Helen Angus
Treasury Board Secretariat Office of the Treasury Board	Associate Deputy Minister	Karen Hughes
Treasury Board Secretariat Office of the Provincial Controller	Assistant Deputy Minister & Provincial Controller	Cindy Veinot
Treasury Board Secretariat Office of the Provincial Controller	Director, Accounting Policy and Financial Reporting Branch	Mark Donaldson
Ministry of Finance Deputy Minister's Office	Deputy Minister	Scott Thompson
Ministry of Finance Office of the Budget	Assistant Deputy Minister	Tim Schuurman
Ontario Financing Authority	Chief Executive Officer	Gadi Mayman
Ontario Financing Authority	Chief Financial and Risk Officer	Ken Kandeepan
Ministry of Energy Deputy Minister's Office	Deputy Minister	Serge Imbrogno
Ministry of Energy Assistant Deputy Minister	Energy Supply Division	Steen Hume
Ontario Power Generation	President and Chief Executive Officer	Jeffrey Lyash
Ontario Power Generation	Senior Vice President and Chief Financial Officer	Ken Hartwick
Independent Electricity System Operator	President and Chief Executive Officer	Peter Gregg
Independent Electricity System Operator	Vice President, Corporate Services and Chief Financial Officer	Kimberly Marshall

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Committee Members

Chair

ERNIE HARDEMAN, MPP (PC/OXFORD)

Current Parliamentary Roles

Chair, Standing Committee on Public Accounts
Critic, Municipal Affairs and Housing

Vice-Chair

LISA MACLEOD, MPP (PC/NEPEAN—CARLETON)

Current Parliamentary Roles

Vice-Chair, Standing Committee on Public Accounts
Critic, President of the Treasury Board, Critic, Ministry of Finance,
Critic for the Anti-Racism Secretariat

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Members

BOB DELANEY, MPP (LIB/MISSISSAUGA—STREETSVILLE)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts Member, Standing Committee on Estimates,
Parliamentary Assistant to the Minister of Energy

VIC DHILLON, MPP (LIB/BRAMPTON WEST)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Government and Consumer Services Member, Standing Committee on Social Policy

HAN DONG, MPP (LIB/TRINITY—SPADINA)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Advanced Education and Skills Development, Parliamentary Assistant to the Minister Responsible for the Poverty Reduction Strategy
Member, Standing Committee on Finance and Economic Affairs

JOHN FRASER, MPP (LIB/OTTAWA SOUTH)

Current Parliamentary Roles

Member, Standing Committee on Social Policy Member, Standing Committee on Public Accounts, Parliamentary Assistant to the Minister of Health and Long-Term Care

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PERCY HATFIELD, MPP (NDP/WINDSOR—TECUMSEH)

Current Parliamentary Roles

Critic, Housing
Critic, Municipal Affairs
Member, Standing Committee on Public Accounts

RANDY HILLIER, MPP (PC/LANARK—FRONTENAC—LENNOX AND ADDINGTON)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Critic, Attorney General

LIZ SANDALS, MPP (LIB/GUELPH)

Current Parliamentary Roles

Member, Standing Committee on Public Accounts
Parliamentary Assistant to the Minister of Infrastructure

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Clerk
Katch Koch
Tel. 416-325-7352
kkoch@ola.org

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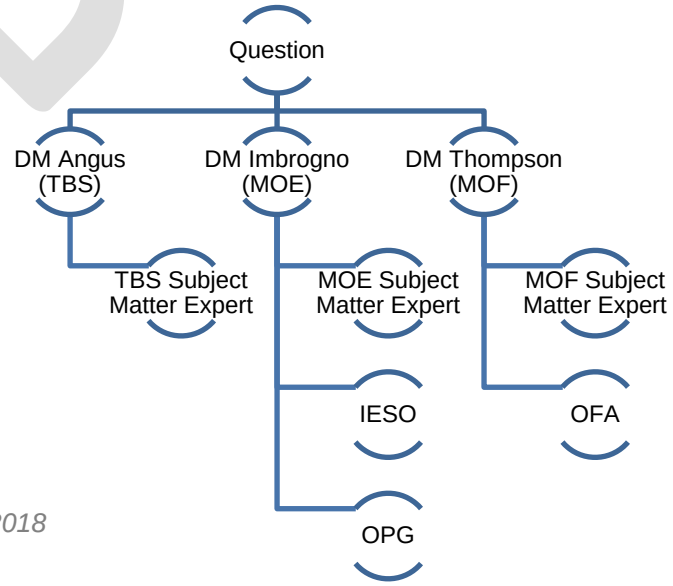
STRATEGIC APPROACH

- Provide evidence and facts as the basis of decision-making wherever appropriate (e.g. other jurisdictions, external advisors).
- Provide responses that are relevant and in scope of the consideration of chapter two of the Office of the Auditor General's report
- Avoid any speculation on political decision-making or rationales; provide objective, factual responses in role as non-partisan public servant.
- Provide context wherever possible. Deputy Ministers to provide initial messaging then pass to the subject matter experts where appropriate.
- Emphasize the role of a public servant is to provide factual, non-partisan information to the Committee based on due diligence and the application of professional judgment.
- Reaffirm the government's commitment to working with the Office of the Auditor General.
- Emphasize that the province will continue to follow Public Sector Accounting Standards (PSAS), as always, and will seek appropriate expert guidance where PSAS is silent.
- Use the Committee appearance as an opportunity to communicate the facts and rationale for the decision to adopt/continue accounting practices in response to the Office of the Auditor General's recommendations.
- Highlight due diligence in decision making (Ontario Fair Hydro Plan accounting, pension asset accounting, Independent Electricity System Operator [IESO] market accounts, IESO rate-regulated accounting).



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STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Last updated: January 22, 2018

Key Issues	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thompson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting		Overall - Pension Asset Accounting		Details - Pension Asset Accounting								
Advisory Panel Compensation			Advisory Panel Compensation									
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts				Government decision to accept IESO market accounts			OFHP Policy Overview	OFHP Policy Overview			IESO's Role in OFHP / General Overview	IESO Market Accounts
Rec #5 IESO Market Accounts & Rate-Regulated Accounting				Government decision to accept IESO rate-regulated accounting								IESO Rate-Regulated Accounting
AG Audit of 2017 Statements		Relationship with AG - AG Audit of 2017										AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #3 OFHP Accounting				Decision to accept OFHP accounting			OFHP Policy Overview	OFHP Policy Overview	OPG's Role in OFHP / General Overview	OPG Financing Structure / Transaction	IESO's Role in OFHP / General Overview	IESO Financing Structure
Rec #6 'Legislated Accounting'				OFHP - 'legislated' accounting								
Rec #9 Arm's Length Trusts				Accounting for trust						OPG Accounting / Trust		
Records Disclosure/Process		Ministry FOI/OPQ					Records Disclosure / Process Followed		Records Disclosure / Process Followed		Records Disclosure / Process Followed	
Re-design of hydro bills							Re-design of hydro bills					
Pre-Election Report		**JOINT PRE-ELECTION REPORT LEAD**			**JOINT PRE-ELECTION REPORT LEAD**							
Rec #10 Pre-Election Report on Ontario's Finances		Pre-Election Report on Ontario's Finances	Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #7 Province's Debt Burden					Province's Debt Burden	Province's Debt Burden; Repayment plan						
Financial Accountability Officer Reports					Financial Accountability Officer Reports	Financial Accountability Officer Reports						
Credit Ratings					Credit Ratings	Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
Rec #4 External Advisors		External Advisors										
Rec #8 Timeline of Finalization of Financial Statements		Timeline of Finalization of Financial Statements	Timeline of finalization of financial statements		Timeline of finalization of financial statements - tax revenues							
Audit Opinion				Audit Opinions								
Out of Scope		Specific ministry Public Accounts line items Speculation about future accounting implications; audit opinions Speculation about government motivations			Speculation about future policy implications Speculation about government motivations		OFHP final accounting implications Speculation about future policy implications Speculation about government motivations		IESO/OPG compensation Expenses			

Status Table_Ch 2 of AG AR_SCOPA_20180208.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #1 *We recommend the government record valuation allowances to offset the net pension assets it has recorded from the Ontario Teachers' Pension Plan and the Ontario Public Sector Employees' Union Pension Plan until such time as it obtains formal written authorization from their pension plan co-sponsors that they are able to lower minimum contributions or withdraw surpluses from the pension funds within the next 12 months.*	The Office of the Auditor General communicated its interpretation of Public Sector Accounting Standards (PSAS) requiring a full valuation allowance on the Province's two jointly sponsored pension plans in September 2016. At that time, the government passed a time-limited regulation on the accounting treatment for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts. During the 2016-17 year, the professional staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans. This conclusion is supported by: • The conclusions reached by an independent Pension Asset Expert Advisory Panel (the 'Panel'), established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans. The Panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017 which supported the government's position that a valuation is not required for these two plans under PSAS. Two key findings of the Panel were: 1) there is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record an asset, as the existing agreements in place between the parties support the recognition of an expected benefit, and 2) unilateral control is not	The government will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and b) changes, if any, in Public Sector Accounting Standards. The government is open to continue to discuss the matter in the hopes of resolving this matter.

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	required for asset recognition; joint control with each party having the ability to deny the actions of the other sponsor, provides evidence of shared control, supporting recognition of an asset. • An opinion from Deloitte LLP on aspects of the Province's accounting as at March 31, 2016 for the Ontario Teachers' Pension Plan. The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under Canadian Public Sector Accounting Standards, even though the Province did not have under a unilateral right to reduce contributions. The opinion did not address the value at which the asset should be recorded. • Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or OPSEUPP as of March 31, 2017. EY confirmed no valuation allowance was required for either plan. The government respectfully disagrees with the Auditor General's interpretation of the accounting standards on this issue as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce future contributions within 12 months.	

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the recommendations in the Special Report issued*	The government prepares its financial statements in accordance with PSAS. The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). The Fair Hydro Trust will raise financing through a combination of 3rd party senior debt and subordinated debt funded by OPG for which the cost will be primarily driven by the credit ratings assigned by Moody's and DBRS. The ultimate cost of this program will be dependent on the quantity of Global Adjustment that will be financed, prevailing market interest rates over the next 30 years, the availability of capital to invest in this type of structured debt and the

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by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.*	Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Trust) that will manage the debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis	credit stability of the OFHP program which would be reflected in credit ratings assigned to this debt over time. Each of these factors will need to be managed and monitored closely. The government is open to continue to discuss the issue in the hopes of resolving this matter.

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	conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	
AG Recommendation #4 *The Office of the Auditor General is the appointed under the Auditor General Act as the auditor for the consolidated financial statements of the Province of Ontario. We recommend that the Treasury Board Secretariat:* • *Proactively supply copies to the Auditor General of all contracts it enters into for accounting advice and opinions in order to ensure that*	Treasury Board Secretariat's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis. Treasury Board is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue. In addition, Treasury Board believes frequent communication with the Office of the Auditor General is important and to that end, requested additional meetings with both the staff and the Auditor General during the 2016-17 audit. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.	Treasury Board Secretariat will continue to take a proactive approach to raising issues with the Office of the Auditor General. Where required by the CPA Ontario Code of Professional Conduct, the Auditor General will continue to be advised of external advisor involvement.

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our Office is aware of the work the advisers are performing, can assess significant issues in a timely manner, and can determine the impact on the Province's consolidated financial statements and our annual audit; and • *Build into its contracts with external advisers the requirement that the advisers engaged to provide accounting advice and opinions that affect the consolidated financial statements notify our Office of*		

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their engagement as required under the Code of Professional Conduct of the Chartered Professional Accountants of Ontario.		
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards, and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018. The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements. This includes providing transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflecting the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement

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• *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which*	unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	models, and instead are recovered through rate regulation. The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO. The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information. The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

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states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)."		
AG Recommendation #6 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board, rather than using legislation and regulations to prescribe accounting treatments.*	The Province is committed to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow Treasury Board Secretariat and Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the only example of where the accounting treatment was legislated, and the legislation did not align with the requirements of PSAS. With respect to the Ontario Fair Hydro Plan Act and its regulations, there are no provisions in that legislation that prescribe the accounting treatment required to be followed by the Province. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

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	which in the absence of the legislation, would have been collected from specified ratepayers as the costs were incurred. The accounting for the transactions resulting from the Fair Hydro Plan will be recorded in accordance with PSAS.	
AG Recommendation #7 *We recommend that in order to address the Province's growing total debt burden, the government work towards the development of a long-term total-debt reduction plan linked to its target of reducing the net debt-to-GDP ratio to its pre-recession level of 27% as measured using proper accounting for net pension assets and the projected costs of the Fair Hydro Plan. The government should also discuss publicly how it plans to pay down the debt.*	The 2017 Budget and the 2017 Fall Economic Statement stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27%, currently projected for 2029-30, together with an interim target of 35% by 2023-24. From 2017-18 onwards, the balanced budget environment will limit increases in debt to the difference between annual investments in infrastructure improvements and the amortization of such investments. The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by $6, on average, in the long term. Therefore, while overall debt will rise to fund these infrastructure investments, measurements of relative debt such as the net debt-to-GDP ratio, a recommended practice by the Public Sector Accounting Board, will gradually diminish due to the Province's GDP increasing at a faster rate than net debt. This will allow the Government to continue to move towards its 27% net debt-to-GDP target. The ratio has already commenced declining, falling to 37.3% in 2017-18 from its 2014-15 peak of 39.3%.	Continue to monitor progress. Estimated implementation by FY 2029-30.

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	As discussed more thoroughly in responses to other recommendations in this report, the government prepares its financial statements in accordance with Public Sector Accounting Standards, including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.	
AG Recommendation #8 *We recommend that the Office of the Provincial Controller undertake thorough planning involving all stakeholders, including Treasury Board Secretariat, ministries and provincial government agencies, to identify the barriers and key areas to be addressed to achieve earlier finalization of the Province's consolidated financial statements, including the estimation risks associated with corporations tax and*	Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of the Public Accounts. The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution. The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts. The Province will work with the Canada Revenue Agency on this recommendation, as reporting Personal and Corporate taxation revenues is highly dependent on information they provide.	Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

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personal income tax revenues.		
AG Recommendation #9 *We recommend that the government avoid establishing arm's length trusts in order to record an expense in its consolidated financial statements before it is necessary, given that it loses the ability to ensure that funds are ultimately provided to the appropriate beneficiaries.*	The government works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants. Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arms-length and is able to demonstrate proper oversight. A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor. The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors. While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.	The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

AG Recommendation #10 *We recommend that the government determine when it will issue a regulation as outlined under subsection 11(1) of the Fiscal Transparency and Accountability Act, 2004 confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to our review under the Act.*	Under the *Fiscal Transparency and Accountability Act*, 2004, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a Statement based on a prompt review following the release of such a Pre-Election Report.	The government remains committed to meeting the legislative requirements of the Act and working constructively with the Office of the Auditor General.

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Attachment C. Ministry of Finance Comprehensive QAs (0 Bytes) cannot be converted to PDF format.

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QUESTIONS & ANSWERS

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Last updated: February 1, 2018
Initial review by OPCD

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

Key Messages

- The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).
- We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.
- The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.
- The province is open to continue to discuss the matter in the hopes of resolving this matter.
- For more information on pension asset accounting, I will now pass it over to:
    - Cindy Veinot, Provincial Controller

1. **How do you respond to the Auditor General's recommendation that the government should record valuation allowances to offset the net pension assets recorded from the Ontario Teacher's Pension Plan and the Ontario Public Sector Employee's Union Pension Plan until you receive formal written authorization from their pension plan co-sponsors?**

   The province continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS).

   The Office of the Auditor General communicated its interpretation of PSAS requiring a full valuation allowance on the province's two jointly sponsored pension plans in September 2016.

   At that time, the government passed a time-limited regulation on the accounting treatment of for its joint defined benefit plans to align with the Auditor General's interpretation of PSAS, which enabled officials from the Treasury Board Secretariat and the Ministry of Finance to sign the Statement of Responsibility for the 2015-16 Public Accounts.

   During the 2016-17 year, the province's professional accounting staff conducted further research and analysis, and determined that PSAS does not require a valuation allowance on either of the jointly sponsored pension plans.

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This conclusion is supported by:

- The conclusions reached by an independent Pension Asset Expert Advisory Panel, established by the government to provide advice on the interpretation of PSAS with respect to the reporting of net pension assets of these two joint defined benefit plans.

  The panel, comprised of accredited accounting, actuarial and legal professionals with extensive background in pension accounting and plan governance, released its report in February 2017, which supported the government's position that a valuation is not required for these two plans under PSAS.

  Two key findings of the panel were:

  1) There is no requirement under PSAS that any formal agreement exist between the joint sponsors regarding the timing or amount of a reduction in contributions to record and asset, as the existing agreements in place between the parties support the recognition of an expected benefit; and

  2) Unilateral control is not required for asset recognition. Joint control with each party having the ability to deny the actions of the other sponsor provides evidence of shared control, supporting recognition of an asset.

- An opinion from Deloitte LLP on aspects of the province's accounting as of March 31, 2016 for the Ontario Teacher's Pension Plan (OTPP). The opinion, which was dated October 2, 2016, concluded that it was permissible to recognize a pension asset under PSAS, even though the province did not have a unilateral right to reduce contributions. (The opinion did not address the value at which the asset should be recorded.)

- Analysis completed by EY as to whether any valuation allowance is required to be recorded for OTPP or Ontario Public Sector Employee's Union Pension Plan (OPSEUPP) as of March 31, 2017. EY confirmed no valuation allowance was required for either plan.

After significant deliberation, including consideration of the recommendations of the panel, Deloitte LLP and EY, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and prepared in accordance with PSAS for pension asset accounting. The 2016-17 financial statements include these pension assets, and we continue to apply the accounting treatment of pension

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assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

We respectfully disagree with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months.

The province will evaluate the need for a valuation allowance annually taking into consideration (a) changes, if any, in the governance structures of the plans, (b), decisions, if any, of the joint sponsors that impact the need for a valuation allowance, and c) changes, if any, in Public Sector Accounting Standards.

The province is open to continue to discuss the matter in the hopes of resolving this matter.

2. Why are you still fighting with the Auditor General over pension accounting?

In preparing last year's Public Accounts, the province's professional accounting staff and the Auditor General's Office engaged in discussions about the appropriate application of Public Sector Accounting Board standards regarding pension accounting for the province's jointly sponsored pension plans.

As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations to the province on the issue. The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan. The 2016-17 financial statements include these pension assets, and the government continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 results were restated to include these assets.

The Treasury Board Secretariat will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

Advisory Panel Compensation

1. **How much did you pay the panel members? Do you think that money was justified?**

   The total cost of the panel was $221,113. This included compensation and travel expenses for the four panelists, as well as procurement. These rates are consistent with the Agencies and Appointments Directive, which specified up to $2,000 per day for appointees with unique and specialized expertise, or urgent issues affecting government priorities and requiring intense time commitments over a short period of time.

   The panel members have expertise in the areas of jointly sponsored pension plan governance, actuarial modelling for pension plans and public sector accounting standards, and provided independent advice on how to move forward with how Public Sector Accounting Board standards should be applied to current and potential future net pension assets.

2. **Why was Patricia O'Malley included in Public Accounts and not the other panel members?**

   Patricia O'Malley was the chair of the independent Pension Asset Expert Advisory Panel (PAEAP), which provided important advice to government on how to account for jointly-sponsored pension plans. She is included in Public Accounts because her compensation for her work on the Panel was above the $50,000 threshold that must be reported in detail in Public Accounts.

   The other members of PAEAP were paid less than the $50,000 minimum threshold in fiscal 2016-17 that requires they be listed in Public Accounts. Their 2016-17 compensation is captured as part of the "Accounts Under $50,000" category.

   As Paul Martin is a member of the New Brunswick Public Service, he did not receive compensation for his role on the panel. He was only eligible for expense reimbursements.

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

Key Messages

- The province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies.
- Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit.
- In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements.
- The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.
- The government supports this enhanced reporting and greater transparency for the economic activities of the IESO.
- The province is open to continue to discuss the issue in the hopes of resolving this matter.
- For further details on the province's decision to accept IESO market accounts on the province's consolidated financial statements, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO's decision to adopt market accounts, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts	Ministry of Energy (IESO)

1. **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

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This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

Key Messages

- The Independent Electricity System Operator (IESO) intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS), and will report on the results of its accounting firm's audit in its 2017 financial statements, to be published March 30, 2018.
- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.
- For further details on the province's decision to accept IESO market accounts and rate-regulated accountingI will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the IESO, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Ministry of Energy (IESO)

3. Does the Independent Electricity System Operator (IESO) use Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements?

Yes. The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS).

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The IESO's financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. The IESO received an unqualified, or clean, audit opinion on its 2016 financial statements.

4. Why is the IESO now including market accounts on its financial statements? Does this go against PSAS?

The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS.

In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

5. The Auditor General says that the IESO's use of rate-regulated accounting is inappropriate. Why has the government allowed the IESO to adopt this accounting method that she says is not in accordance with PSAS?

Canadian Public Sector Accounting Standards (PSAS) are silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of*

transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.

Many entities in Canada, including Ontario Power Generation (OPG) and Hydro One use rate-regulated accounting. Rate-regulated accounting is well understood in the electricity sector, and the approach selected was taken in that context. The recognition of regulatory assets brings IESO in line with six other independent system operators in North America, including the:

- Alberta Electric System Operator (AESO)
- ISO New England
- New York Independent System Operator (NYISO)
- Midcontinent Independent System Operator (MISO)
- PJM Interconnection LLC and,
- Electric Reliability Council of Texas (ERCOT).

6. Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting? What would be the impact on the province's credit rating?

It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

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The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

AG Audit of 2017 Statements

Key Messages

- The IESO will continue to regularly review its accounting policies to ensure they are best suited to the reporting requirements of its business and the users of its financial statements.
- The IESO recognizes the Auditor General's statutory role and authority to perform an audit of the IESO.
- As I understand, the IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.
- As I understand, the IESO has also instructed its audit partner to cooperate with the Auditor General's Audit.

For QAs related to:	See:
Audit of IESO's statements	Ministry of Energy (IESO)

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

Key Messages

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in the Public Sector Accounting Board's guidebook.
- The province's professional staff have appropriately applied this guidance in assessing the accounting for the OFHP.
- For further details on the province's decision to accept OFHP accounting, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

7. Will the government follow Public Sector Accounting Standards (PSAS) for Ontario's Fair Hydro Plan?

The province will prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).

The proposed accounting for the Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.

PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. This guidance for PSAS is included in PS1150.07:

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- *No rule of general application can be phrased to suit all circumstances or combinations of circumstances that may arise. As a result, matters may arise that are not specifically addressed in the primary sources of GAAP. It is necessary to refer to other sources when the primary sources do not deal with the accounting and reporting in financial statements of transactions or events that a public sector reporting entity encounters, or when additional guidance is needed to apply a primary source to specific circumstances. (Section PS 1150.07 from the PSA Handbook)*

The province's professional staff has appropriately applied this guidance in assessing the accounting for the Ontario Fair Hydro Plan.

8. Will the government follow the accounting standards set by historical precedent, as cited by the Auditor General?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the 1999 restructuring of the former Ontario Hydro took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment, which can be held and realized or can be sold.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected

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lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

9. Will the government implement the recommendations in the Auditor General's Special Report on the Fair Hydro Plan?

While the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

On the point of "true financial impact":

In order to meet the needs of users, including the legislature and the public, for accountability in government reporting and decision making, it is essential that public sector financial statements reflect the economic substance of the government's activities.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior

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governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

Ontario has a strong track record of producing high-quality financial reports on a timely basis, and will continue to move forward and present the province's finances fairly, accurately and in accordance with PSAS.

On the point of "a financing structure that is the least costly for Ontarians":

The OFHP financing structure has been designed to provide electricity rate relief to current ratepayers, including by more fairly allocating costs for specified consumers, with the Global Adjustment cost amounts still ultimately borne by specified electricity ratepayers, as beneficiaries of those electricity system costs.

The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. Having the rate-base pay is not a new policy, for example Hydro One has borrowed in the capital markets since 2000.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (the Fair Hydro Plan Trust) that will manage the debt obligations. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO).

The cost analysis in the Office of the Auditor General's report was sourced from the FAO's May 2017 report. Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Recent government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

The province will continue to prepare its consolidated financial statements in accordance with PSAS and continue to build on a track record of responsible fiscal management.

10. The Auditor General says that she has consulted with all of the Auditor Generals in Canada – and they agree with her assessments. How are we supposed to believe this government when all legislative auditors in the country say you are wrong?

In developing Ontario's Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

11. Both the Auditor General and the Financial Accountability Officer have raised serious concerns about the accounting treatment of the electricity cost refinancing initiative. Why should Ontarians believe this government over two independent officers of the Legislature?

The province has the utmost respect for all independent officers of the legislature, and values the important perspective they bring.

In developing the Ontario Fair Hydro Plan, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting

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Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

The province, as always, will prepare its consolidated financial statements in accordance with PSAS and continue to build on its track record of responsible fiscal management.

12. The Auditor General says that you are "obfuscating" the true financial impact of Ontario's Fair Hydro Plan through a "needlessly complex" accounting structure. How do you respond?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

OFHP is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

While the implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized, the financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

13. How can you justify the $4 billion in additional interest expenses that will be borne by ratepayers because of the way the government has structured electricity cost refinancing (i.e. using Ontario Power Generation to finance 55 per cent, at a higher interest rate than the province, instead of the province financing the entire electricity cost financing)?

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Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions. The impact of some of these decisions will be borne by the province (taxpayers) where appropriate, such as sales tax relief and shifting social programs to the tax base; some will be borne by ratepayers, such as spreading the investment costs and benefits across ratepayers more fairly.

The accounting will reflect the economic substance of the transactions in accordance with Public Sector Accounting Standards (PSAS) and will differentiate those costs of OFHP borne by taxpayers versus those borne by ratepayers.

The Auditor General's report suggests that all the costs of OFHP should be reflected as if they will be borne by taxpayers, which is inaccurate.

Ontario Power Generation (OPG) is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Officer (FAO).

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be below $20 billion. The preliminary estimate from March 2017 was about $28 billion.

For further questions about borrowing estimates, please contact the Ministry of Finance.

14. The AG claims that when the government first gave Ontarians an 8 per cent break on their bills, it was reported on the books properly. She says when it jumped to 25 per cent, the accounting changed. Isn't it obvious that the government is cooking the books to suit their needs?

Ontario's Fair Hydro Plan (OFHP) is comprised of a series of policy decisions.

It is our role as public servants to provide our best advice and due diligence.

As always, the province adheres to Canadian Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board.

The province will continue to follow these standards for the transactions resulting from Ontario's Fair Hydro Plan (OFHP) in 2017-18 and in future years.

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It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS is silent and does not address specific transactions.

In this case where PSAS is silent on the use of rate-regulated accounting, US accounting standards contain the most developed and appropriate guidance for this transaction.

15. The Auditor General says that even your own government officials flagged the unnecessarily high costs of Ontario's Fair Hydro Plan – and yet you chose to proceed. How can you justify this?

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

Multiple options were considered in creating the OFHP framework – such as to have local distribution centres finance the difference between the amounts paid to the generators and the amounts collected from the ratepayers. This was rejected because of the inability of some local distribution centres to finance the balances.

The implementation of OFHP is ongoing, with significant decisions with accounting and financial implications still being finalized.

Ultimately, OFHP operates under a financial and accounting framework that is appropriate for the intended purpose. It is in accordance with Public Sector Accounting Standards (PSAS) and ensures the goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

Key Messages

- The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.
- As always, we will prepare the province's consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS), including the transactions resulting from Ontario's Fair Hydro Plan (OFHP).
- For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to

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allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of PSAS.

- This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.
- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller
- For further details on the OFHP, I will pass it over to:
    - Deputy Imbrogno

For QAs related to:	See:
OFHP Overall, incl. IESO and OPG role	Ministry of Energy

1. **Why has the government legislated accounting for things like Ontario's Fair Hydro Plan? Aren't you just changing the rules to suit your needs?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   For the 2015-16 Public Accounts, the government passed a time-limited regulation prescribing the accounting treatment for net pension assets in order to allow the Treasury Board Secretariat and the Ministry of Finance officials to sign off on Public Accounts consistent with the fiscal impact of the Auditor General's interpretation of Public Sector Accounting Standards (PSAS). This regulation is the **only** example of where the accounting treatment was legislated, and the legislation did not align with the requirements with PSAS.

   The *Ontario Fair Hydro Plan Act, 2017* and its related regulations **do not** create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.

   The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

2. **The Auditor General said that a similar move to legislate accounting to defer costs was proposed with the restructuring of the Ontario electricity**

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sector in the late 1990s, but the Auditor General's opinion at that time was that this would represent a departure from a central tenet of generally accepted accounting principles. The government at that time heard these concerns, and made the decision to not create an asset for future anticipated ratepayer payments. Why does the government think this is ok now?

The Auditor General's report makes a comparison between Ontario's Fair Hydro Plan (OFHP) and the Ontario Electricity Financial Corporation (OEFC) stranded debt. There are, however, crucial differences between the two.

For example, the OEFC stranded debt had already been incurred when the restructuring took place.

In the case of OFHP, the difference between what will be collected and what will be paid to generators is considered to be an asset in accordance with the accounting definition, as it will generate a specific future revenue stream in the form of the Clean Energy Adjustment.

It is important to note that the 1999 restructuring led to an "unbundling" of the electricity rate. Prior to the 1999 restructuring and the 2002 market opening, there was a "bundled rate" for electricity that included cost recovery of generation and transmission costs, operating and capital – including debt costs, as well as central market operations costs. Including debt cost recovery and matching the timing of the capital cost recovery with the benefit to the ratepayer is a normal rate-setting regulatory practice.

The Debt Retirement Charge (DRC) represented the unbundling of a portion of the debt service costs. It effectively amortized the cost of the investments in long-lived assets (including debt incurred).

The OFHP Global Adjustment deferral is also intended to have costs recovered from specified ratepayers over a time period that better reflects the expected lives of those assets (versus the contract lengths that may be shorter than the expected useful life of the assets).

The difference between the 1999 restructuring and OFHP is that the DRC continued to pay down, over time, debt that had already been incurred, while under OFHP, an asset is being recorded to reflect a fair allocation of electricity costs between current and future ratepayers.

The intention of OFHP is to be forward-looking, to ensure that ratepayers are sharing current and future costs, whereas the DRC was backward-looking, replacing part of a bundled rate that was already spreading the cost recovery of the debt over time.

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AG Recommendation #9: Arm's Length Trusts

Key Messages

- The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.
- Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight.
- The province will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.
- For more information on arm's length trusts, I will pass it to:
    - Cindy Veinot, Provincial Controller
    - Deputy Imbrogno

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy

1. **Will the government avoid establishing arm's length trusts in order to record an expense in its financial statements before it is necessary, given that it loses the ability to ensure funds are provided to the appropriate beneficiaries?**

   The province works with its transfer payment recipients to ensure it receives good value for the money it provides in the form of grants.

   Government policy on the structured approach to program delivery takes a risk-based approach with respect to transfer payment oversight. Grants are provided to thousands of organizations annually that the government deals with at arm's length and is able to demonstrate proper oversight.

   A trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 70 distributors across Ontario, it was not feasible for the province to enter into agreements with each distributor.

   The trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.

   While the Affordability Fund was established at arm's length to the government, there are report-back requirements on the use of funds transferred, as well as the

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ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.

Records Disclosure/Process

Key Messages

- The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- Senior ministry officials have met and continue to work with the Office of the Auditor General by participating in interviews and providing documentation.

For QAs related to:	See:
MOE Records Disclosure	Ministry of Energy

1. **The Auditor General alleges the government withheld information from her on the accounting treatment for Ontario's Fair Hydro Plan. Why would she say that?**

   The province is committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.

   The implementation of Ontario's Fair Hydro Plan is ongoing, with significant accounting and financial decisions still being finalized.

   Treasury Board Secretariat has released all requested records.

   Senior ministry officials have met with the Office of the Auditor General by participating in interviews and providing documentation.

   If asked about the Ministry of Energy emails:

   The Ministry of Energy, Finance, and the Treasury Board Secretariat are committed to assisting the Auditor General.

2. **In an email, a TBS official said [___], disagreeing with the government's policy decision. How do you respond?**

   As public servants, it is our role to provide our best advice and conduct our due diligence to inform decision-making. Part of this process includes questioning and deliberations.

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The record you are referring to is part of that discussion process, where we as public servants engage in deliberations and explore the options to get to the point of providing our best advice.

It is important to keep in mind that an individual email represents a point in time of the discussion.
That statement is not necessarily representative of the final advice put forward and an endorsement of what the public service has identified as the best approach.

The records must be considered in the context of discussion and deliberation, as an exercise in due diligence, and not as a final endorsement of an option or approach.

3. When does TBS not provide information through a Freedom of Information request?

Since 2015, TBS has been 100 per cent compliant for all Freedom of Information requests it has received.

In some cases, records may contain information that will be withheld in accordance with the legislation, such as personal information about individuals, confidential business information, advice to government or information that is subject to solicitor client-privilege.

Re-Design of Hydro Bills

For QAs related to:	See:
Hydro Bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

Key Messages

- The province takes the Auditor's recommendations seriously and remains committed to working constructively with the Auditor General.
- The government has not yet made a decision on whether and when to release a Pre-Election report.
- We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

For QAs related to:	See:
Pre-Election Report	Ministry of Finance (Joint lead with Treasury Board Secretariat)

1. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The province remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

2. **Is the government required to issue a pre-Election Report?**

   Provisions in the Fiscal Transparency & Accountability Act, 2004 (FTAA) allow for – but do not require – a regulation to be filed requiring the release of a Pre-Election Report and a review of that report by the Auditor General.

3. **The Auditor General signalled her readiness to work with the government to examine the pre-election report, why has the government waited this long to engage with the Auditor?**

   The province takes the Auditor's recommendations seriously. The government has not yet made a decision on whether and when to release a Pre-Election

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report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the Province's fiscal position in advance of the election.

4. Minister Sousa recently signalled that the government is not planning on issuing a Pre-Election Report. How do you feel about the government continuing to circumvent the Auditor General and avoiding accountability?

The province takes the Auditor's recommendations seriously. As I understand, the government has not yet made a decision on whether and when to release a Pre-Election report. We are engaging with all officers of the legislature to keep them informed and engage constructively on considerations and approaches to ensure the people of Ontario are provided with an independent review of the province's fiscal position in advance of the election.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

1. **How can your debt reduction plan be trusted if you're not using proper accounting for pension assets and the Fair Hydro Plan?**

   The province is committed to providing high-quality financial reports that support transparency and accountability in reporting to the public, the legislature, and other users.

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the net pension assets for its jointly sponsored pension plans and the transactions resulting from the Ontario Fair Hydro Plan.

   PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and is used by all senior governments in Canada.

   PSAS is principle based – the standards are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consults with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

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Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

1. **Does a qualified opinion from the Auditor General impact the province's credit rating?**

   The province's financial results show that the government has beaten its annual deficit targets. In April 2017, Ontario delivered its first balanced budget since the global recession and is on track to do so again next year and the year after.

   The rating agencies will assess whether the underlying factors that lead to a qualified opinion directly affect the creditworthiness of the province. However, there were no credit rating implications in 2016 when the province received a qualified audit opinion on its 2015-16 Public Accounts. Qualified opinions by the Auditor Generals of British Columbia and Quebec have been made in their respective provinces in the past, with no negative impacts on their province's credit ratings.

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

Key Messages

- The Treasury Board Secretariat (TBS) will continue to take a proactive approach to raising issues with the Office of the Auditor General.
- The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.
- External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.
- When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

For QAs related to:	See:
Ministry use of external advisors	Ministry of Energy Ministry of Finance

1. **Will the government provide copies of contracts it enters into for accounting advice to the Auditor General?**

   The province's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

2. **Will the government build into its contracts with external advisors a requirement to notify the Auditor General of their engagement?**

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Office of the Auditor General has been, and will continue to be, advised of external advisor involvement.

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3. **Why does the government use external advisors/consultants? It seems convenient that whenever you disagree with the Auditor General, you turn to consultants to justify your accounting methods.**

   The government has a strong track record of producing high-quality financial reports on a timely basis and continues to present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards.

   The government's use of external expertise for accounting and financial reporting matters is a normal course of business and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis.

4. **It seems like you use consultants to circumvent the Auditor General, when it looks like she may disagree with your accounting methods. Why don't you let the Auditor General know when you're using external advisors for something that impacts her Office's ability to do their job?**

   The government's use of external expertise for accounting and financial reporting matters is a normal business practice and supplements its own resources on complex or emerging accounting and reporting matters.

   External advisors are generally engaged to provide advice and guidance to supplement internal analysis. The professional staff takes responsibility for the final decisions that are made with respect to the application of PSAS to the government's transactions.

   The province is committed to working with the Office of the Auditor General to discuss issues, once the professional staff has completed its analysis of the issue.

   When required by the Chartered Professional Accountants Ontario Code of Professional Conduct, the Auditor General has been, and will continue to be, advised of external advisor involvement.

5. **Are you going to hire an expert advisory panel, as you did on the pension asset accounting matter, to settle this dispute with the Auditor General? If so, what authority would this panel have?**

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There are no plans to establish a panel at this time.

In developing Ontario's Fair Hydro Plan (OFHP), the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

The province will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

6. Can you tell us how many consultants are being paid high salaries with public money while keeping themselves off the sunshine list?

The government continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

7. How much did the Treasury Board Secretariat spend on consultants?

The Treasury Board Secretariat (TBS) spent approximately $202 million in 2016-17 on consulting services:

- $167M is procured by IT Source, Central Agencies Cluster for Ontario Public Service (OPS) ministries. TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries.
- $36M is services procured by TBS programs primarily for IT enhancement, management and other consulting services.

Consultants are used in the OPS when the organization needs to gain external advice and specialized expertise not already available in the OPS, or for short-term and non-recurring projects and initiatives.

TBS has an enterprise role of procuring task-based IT consulting services on behalf of other ministries as a cost-saving strategy.

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Whenever the OPS need IT consulting services, the first thing we do is look for expertise within the organization. The government turns to IT consultants when it doesn't have the expertise in house, when it needs to gain external advice and specialized expertise, or when the need is short-term and non-recurring. This is true for one-time projects that launch new programs or when Cyber Security staff combine with external experts to carry out Threat Risk Assessments to ensure personal information is safe.

AG Recommendation #8: Timeline of Finalization of Financial Statements

Key Messages

- The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.
- The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.
- Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General.
- As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.
- For further details, I will pass it over to:
    - Karen Hughes, Associate Deputy Minister, Office of the Treasury Board
    - Deputy Thompson

For QAs related to:	See:
Finalization of Financial Statements – Tax Revenues	Ministry of Finance

1. **Will the government improve its planning across stakeholders so that the province's consolidated financial statements are finalized earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The Office of the Provincial Controller works closely with the Office of the Auditor General to identify audit issues early and to ensure that stakeholders are engaged in discussions regarding risks and resolution.

   The Office of the Provincial Controller will continue to collaborate with the Office of the Auditor General to support the timely delivery of the Public Accounts.

   Planning discussions for the 2017-18 Public Accounts have begun between the

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Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

2. **What will the government do to figure out estimation risks associated with corporate tax and personal income tax revenues earlier?**

   The Treasury Board Secretariat and the Ministry of Finance are supportive of the timely delivery of Public Accounts.

   The province will work with the Canada Revenue Agency (CRA) on the Auditor General's recommendation, as reporting personal and corporate taxation revenues is highly dependent on the information from the CRA.

   Planning discussions for the 2017-18 Public Accounts have begun between the Office of the Provincial Controller and the Office of the Auditor General. As well, the Office of Economic Policy has been engaged in discussions on risk considerations related to economic models used to estimate personal and corporate tax revenues.

Adverse or Qualified Audit Opinion

Key Messages

- It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year.
- The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).
- As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.
- PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.
- Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors.
- They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.
- For further details, I will pass it over to:
    - Cindy Veinot, Provincial Controller

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1. **The Auditor General says that you anticipated the government would receive a qualified audit opinion – and accepted this risk. In the private sector this would be unacceptable. How do you figure you can get away with this?**

   The province's financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

   As PSAS is set by an independent standard-setting body in Canada focused specifically on the public sector, and because PSAS is used by all senior governments in Canada, presenting financial statements in accordance with PSAS results in transparent financial reporting for the province of Ontario.

   PSAS are principle based -- they are not a set of specific prescriptive rules. Applying them requires the application of professional judgment.

   Our professional staff exercises judgment in applying the standards and as necessary consult with external experts and advisors. They provide the Office of the Auditor General with their written analysis on all significant issues that impact the financial statements for the year being audited, and they discuss the issues with the Office of the Auditor General.

   All Chartered Professional Accountants (CPAs), including those employed by the Ontario Public Service (OPS), are required to comply with the Code of Professional Conduct for CPAs. One of those rules is that they not be associated with false or misleading information.

   That means that if the professional accountants in the OPS do not agree with the judgment of the Ontario Auditor General, it is not as simple as just agreeing to accept the interpretation of the Office of the Auditor General if they believe that interpretation would result in false or misleading financial statements. While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

2. **Are you concerned that the Auditor General will issue an adverse opinion on the province's next Public Accounts due to Ontario's Fair Hydro Plan accounting?**

   It would be inappropriate to speculate about how the Auditor General may issue an opinion for Public Accounts next year. The implementation of Ontario's Fair

Hydro Plan (OFHP) is ongoing, with significant decisions with accounting and financial implications still being finalized.

The Ministries of Energy and Finance, and the Treasury Board Secretariat continue to work closely with Ontario Power Generation (OPG), the Independent Electricity System Operator (IESO), as well as third-party experts to ensure appropriate due diligence is completed.

The province's financial statements are prepared in accordance with Canadian PSAS and will follow PSAS in accounting for the transactions resulting from OFHP in 2017-18, and in following years.

The financing plan for OFHP and its impact will be transparent. Credit rating agencies, securities regulators, and the public will see full information and full reporting of the impacts of OFHP.

Ontario has a strong track record of producing high-quality financial reports on a timely basis. Ontario will continue to move forward and present the province's finances fairly and accurately and in accordance with PSAS.

3. The Auditor General has issued a qualified opinion for the second year in a row. Is this a sign of fiscal mismanagement?

TBS leads the overall Public Accounts process. Public Accounts is a major accountability document which presents the financial statements of the province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the Budget.

TBS continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Board standards. Ontario has a strong track record of producing high-quality financial reports on a timely basis. The Auditor General's qualified opinion is based on a different interpretation of Public Sector Accounting Board standards for net pension assets and recognition of market accounts.

Last year there was a disagreement among the province's professional accounting staff and the Auditor General's Office on the appropriate application of Public Sector Accounting Board standards regarding pension accounting. As a result, the Pension Asset Expert Advisory Panel was established to deliver independent advice and recommendations on the issue to the province.

The independent panel members concluded the province's share of the net pension assets of both the Ontario Teachers' Pension Plan and the Ontario

Public Service Employees' Union Pension Plan should be recognized in Ontario's financial statements.

After significant deliberation, including consideration of the recommendations of the panel, Ontario confirmed that the accounting for these plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these pension assets, and TBS continues to apply the accounting treatment of pension assets that the province has used consistently since 2001. In addition, the 2015-16 financial statements were restated to include these assets.

This year the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and finally by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

2016-17 Overall Accounting Changes

1. **Why have you restated prior year's financial statements?**

   When preparing the 2016-17 Public Accounts, Ontario's professional accounting staff adopted accounting changes to further enhance accountability and transparency.

   These changes include:

   a. **A change in the presentation of accounting for hospitals, school boards and colleges** - third-party revenues (i.e. tuition fees, patient fees, research grants and donations) are now reported together with provincial revenue. This change increases transparency and is supported by the Auditor General.
   b. **The adoption of International Financial Reporting Standards as the basis for accounting for energy sector government business enterprises** - the financial results of investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting

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Standards. Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board standards and is supported by the Auditor General.

c. **Accounting for market accounts by Independent Electricity System Operator (IESO)** - the IESO has adopted rate-regulated accounting, and is now recognizing its market accounts assets and liabilities in its financial results.
d. **Accounting for net pension assets of jointly sponsored pension plans** - the province is reporting net pension assets for jointly sponsored pension plans. This is in line with Public Sector Accounting Board standards and the recommendations of the independent Pension Asset Expert Advisory Panel.

2. Spending for hospitals, school boards and colleges seems to be much higher in Public Accounts than in the 2017 Budget. Why is this?

To increase transparency, in 2016-17 we have made a simple change to how we are reporting third party revenues for broader public sector organizations.

For the first time, Public Accounts are presenting third party revenues for hospitals, school boards and colleges with provincial revenue. Third party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, are no longer netted against the respective sectors' expenses, as they were in prior years for Public Accounts and the 2017 Budget.

This is simply a presentation change for Public Accounts. It is fiscally neutral, i.e. there is no change to the annual deficit, net debt or accumulated deficit. To ensure consistency in year-to-year and to Budget comparisons, we are reclassifying all previous years and the 2016 Budget. The 2017 Fall Economic Statement and 2018 Budget will also reflect this presentation change.

The Auditor General supports the province's decision to adopt this presentation change. It is consistent with the accounting principles for governments issued by the Public Sector Accounting Board, and the reporting practices of other senior Canadian governments.

3. What is consolidated reporting?

The Province's consolidated financial statements are presented on a consolidated basis, meaning that the Statement of Financial Position (or balance sheet) and the Statement of Operations (or statement of revenues and expenses) reflect the combination of ministry results as well as the financial

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results for organizations that are controlled under the guidance established under PSAS.

Prior to 2016-17, the Province reported the expenses and third-party revenues of hospitals, colleges and school boards on a net basis. This was changed for 2016-17 to reflect expenses and third-party revenues as separate items (on a gross basis), as opposed to being reported together (on a net basis).This affects what you see for the expense reported for the responsible ministries (Health and Long-term Care, Education and Advanced Education and Skills Development) and the breakdown of figures for hospitals, school boards, and colleges. However this has no impact to the annual deficit, net debt or accumulated deficit.

Line-by-line consolidated reporting is in keeping with Public Sector Accounting Board standards and will mean that our presentation for Public Accounts is consistent with other governments across Canada. The Auditor General is supportive of this change.

4. Why is there a change to the accounting for Ontario Power Generation (OPG) and Hydro One?

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation (OPG) now reflect International Financial Reporting Standards (IFRS). Previously, these results were reported using U.S. Generally Accepted Accounting Principles. This change was made to meet Public Sector Accounting Board requirements and is supported by the Auditor General.

This change has resulted in an adjustment to the opening accumulated deficit and net debt of $1,163 million, of which $683 million relates to transition to IFRS. The impact of this change to the annual deficit is not material to the province in 2016-17.

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OTHER

1. **How does the Treasury Board Secretariat ensure transparency and accountability in financial reporting?**

   The province continues to strengthen its financial management, ensure clear and consistent accounting practices, enhance oversight and accountability and provide better data and information to the public through more channels.

   The Office of the Provincial Controller Division (OPCD) plays a key role in ensuring this transparency and accountability in the province's financial reporting through its major functions, including:
   - Providing the Ontario Public Service (OPS) and Broader Public Sector with accounting and financial management policy and controllership advice;
   - Maintaining the Public Accounts and preparing the Annual Report and Consolidated Statements and the Public Sector Salary Disclosure;
   - Liaising with the Auditor General of Ontario, as well as other jurisdictions and the Chartered Professional Accountants of Ontario and Canada, on the development of government accounting standards;
   - Supporting the development of financial management and controllership capacity across the OPS; and,
   - Supporting the modernization of government by improving the efficiency, effectiveness, and integrity of its financial systems and processes.

   Treasury Board Secretariat (TBS) also works with the Ministry of Finance to help them prepare key documents like the Budget and the Fall Economic Statement.

   TBS does have a leadership role on some financial items like Public Accounts. But for other things, TBS is mostly in a support role.

   TBS collaborates with other senior level governments to assess the impact of proposed standards by the Public Sector Accounting Board and how specific transactions are reported within the accounting frameworks.

2. **Does the province direct organizations on what accounting standards to use or how to apply them?**

   Placeholder

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Executive Compensation

1. **How can you justify the exorbitant salaries paid to Hydro One executives when families are struggling to pay their hydro bills?**

   The province remains committed to ensuring transparency and accountability in how broader public sector employers manage executive compensation.

   However, Hydro One is now a publicly traded company, and decisions regarding compensation are not made directly by the government.

   For further questions about executive compensation and oversight of specific organizations, please contact the ministry responsible.

2. **Why are Hydro One employees not captured by the Sunshine List? MPP Todd Smith is demanding that the government add Hydro One employees back onto the list. Will you do this?**

   Only public sector employees are included on the Sunshine List.

   As a publicly-traded entity, Hydro One is no longer required to report salaries or benefits earned after December 31, 2014 under the PSSDA.

   However, similar to the Ontario Securities Commission requirements, Hydro One must disclose the total compensation levels of the CEO, CFO and three other highest-paid executives of the corporation each year. This information is available to the public online. Top executive salaries are posted on SEDAR in the Management Information Circular.

   As an Ontario Business Corporation Act (OBCA) company subject to Canadian Securities law, Hydro One continues to comply with rigorous governance requirements that include:

   - Disclosure of board-approved annual financial statements along with quarterly updates;
   - CEO and CFO Certifications and Associated Controls certifying that there are no misrepresentations in the annual or quarterly materials;
   - Shareholders' meetings requirements and rules;
   - Disclosure requirements with respect to management circulars (including information about senior management, such as share ownership, any indebtedness to the company and any interest in material transactions) as well as compensation circulars (executive compensation disclosures including shares awarded, perks and incentives).

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3. How do you justify the upward trend of public sector employees making more than $100,000 across all sectors in 2016?

Overall, for 2016 the total number of employees disclosed in the Compendium has increased by 6.6%, to 123,410 employees in 2016 from 115,746 in 2015.

There are a number of reasons why employees may appear on the list, including:

- Employees who are progressing in their career to more challenging positions;
- Natural progression through salary ranges;
- Overtime payments;
- Retroactive pay awards;
- Performance payments; and,
- Payments that may be required on retirement (e.g. to reimburse the employee for unused vacation credits).

In addition, there were some payouts that impacted the 2016 salaries for reported employees, including an increase to base salaries for non-bargaining employees paid as a retroactive lump sum in December 2016 and an arbitration award which provided retroactive pay to members of the OPP.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was enacted in 1996 and has not been adjusted to keep up with inflation. If the salary threshold was adjusted for inflation, it would be $149,424 in today's dollars, reducing the number of employees included in the compendium by 84%.

The government is committed to providing high-quality public services and values the hard work of its dedicated public servants. The employees on this list:

- Deliver key government services;
- Make sure Ontario's food and water is safe;
- Make sure quality health care is available to every resident in the province;
- Make sure quality education is available to every child in the province;
- Make sure Ontario's roads and workplaces are safe; and,
- Bring jobs and investment into Ontario.

The province needs to pay salaries which are competitive in order to attract and retain top talent to deliver quality public services.

4. Who were the top 10 employees on the entire list and what were their salaries?

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The top 10 earners all work largely in the health sector and in Ontario Power Generation. These people all hold executive positions:

- 6 of the 10 are in the health sector;
- 2 are from Ontario Power Generation;
- 1 is at the University of Toronto; and,
- 1 is at the Ontario Pension Board.

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

5. **We learned that the president of OPG, who was the top earner on the province's payroll in 2016, actually made $700,000 more than the sunshine list that was disclosed earlier this year. The difference was a bonus that showed up on OPG's books, but was suspiciously left off the government's books. How many more six-figure bonuses has the President of the Treasury Board hidden from the people of Ontario?**

The province continues to strengthen Ontario's efforts to become the most open, transparent and digitally connected government in Canada.

Disclosure of an individual's salary information outside of the Public Sector Salary Disclosure Act list is governed by the Freedom of Information and Protection of Privacy Act. Accordingly any such disclosure would only be made in compliance with the requirements of that Act.

For 2016, the Treasury Board Secretariat as a ministry reported 996 employees compared to 875 in 2015, an increase of 13.8%. The number increased primarily due to compensation changes, retirement pay-outs, severance payments, overtime and reorganizations.

The $100,000 threshold has not changed since the Public Sector Salary Disclosure Act was introduced in 1996. In today's money the threshold would be $149,424 and would include only 56 (5.6%) of the 996 TBS employees on this year's list and exclude 940 (94.4%).

Questions about specific public sector organizations should be directed to the organization or ministry responsible for it.

6. **How does this government allow salaries that are completely excessive when the average Ontarian can't afford their hydro bill/is working twice as hard because of government cuts/is not part of this millionaire's club?**

In the 2017 Budget, the government announced that it will continue to take a balanced approach to managing compensation. This approach will recognize the need to maintain a stable, flexible and high-performing public-sector workforce that supports the government's transformational priorities and at the same time ensures that public services continue to remain affordable.

A result of recent efforts to reduce spending through compensation restraint and program transformation, the government has delivered on its commitment to balance the budget by 2017-18, while making program spending more sustainable and also protecting the important public services that Ontarians rely on.

A balanced approach to compensation recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable, and inclusive Ontario Public Service, while also remaining competitive with public sector peers.

To this end, the province will continue to provide effective and affordable public services, while recognizing the need for fair compensation.

Government Advertising

1. **How can you justify spending $5.5 million on self-congratulatory advertising for Ontario's Fair Hydro Plan?**

   Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

   Ontario needs government advertising that is appropriate, reasonable and effective because the public has a right to know how public money is being spent, and why the government is bringing forward policy changes.

   At this time, I would like to clarify that the Treasury Board Secretariat is *not* responsible for individual line ministry advertising campaigns, and does not determine how much funding is allocated to any campaign.

   For further questions about specific advertisements or advertising campaigns, please contact the ministry responsible.

2. **For the Hydro Bill partisan inserts – the Auditor General points out that "addressed mail" is non-reviewable (i.e., something was sent to a household by name) as compared to bulk mail which is reviewable. Will you continue to overlook this loophole so that public money can be used to send partisan messages directly to Ontarians?**

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Ontario is the first and only jurisdiction in Canada to have legislation that bans government-paid partisan advertising in newspapers, magazines, billboards, radio, and television.

This legislation was introduced in 2004 to prevent government use of taxpayer dollars for partisan advertising.

Ministries still abide by the principles of the Government Advertising Act in all paid advertising, whether it goes to the Office of the Auditor General or not.

SCENARIO QUESTIONS

Speculation

1. **What do you think the intentions of the government were when they…**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   We provide neutral advice to support decision-making.

2. **What do you think the Auditor General will do…**

   It would be inappropriate for me to speculate on how the Auditor General may issue a future opinion.

3. **Other requests for speculation…**

   I'm not able to comment on something that may or may not happen.

   I'm happy to speak to the contents of chapter two of the Auditor General's report.

Cabinet Confidential

1. **Can you tell us about the advice you provided to the government…**

   I am unable to speak to the advice that was provided, as this would be considered confidential advice provided to Cabinet.

Confidential

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1. **Can you tell us about the advice you provided to your minister…**

   I believe this matter could be considered confidential advice provided. I would be happy to look into this matter further to clarify the scope of confidentiality and provide a written response back to the Committee.

Insisting a Specific Official Answer

1. **I do not want [____] to answer, I want to hear the response from you.**

   I am happy to provide a response to the question in my role as a public servant for the Treasury Board Secretariat.

   [Provide response as within your position's scope.]

   I cannot speak to the specific point you are raising, and as mentioned, [____] would be more appropriate to respond.

   What I can tell you is [____]

Insisting on Commitment

1. **Can you give us an exact figure on…**

   I want to be absolutely precise and specific, so I will need to get back to you with the exact number.

Politicization

1. **Why did the government make [____] decision?**

   As a public servant, it would be inappropriate for me to speculate on the intentions of the government.

   It is our role to provide our best, objective advice to support government decision-making.

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QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

- The Independent Electricity System Operator's (IESO) accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller.
- The IESO prepares its financial statements in accordance with Canadian Public Sector Accounting Standards (PSAS), and received an unqualified, or clean, audit opinion on its 2016 financial statements.
- The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market.
- The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts.

For QAs related to:	See:
Government decision to accept IESO market accounts	Treasury Board Secretariat

Q. Why did the IESO choose to recognize market accounts?

The Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. The IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of IESO-administered markets at year-end.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. It also brought IESO in line with seven of the eight other independent system operators in North America. These accounting changes were highlighted in the IESO's 2016 annual report which was published online in March 2017.

This change has no impact to the province's annual deficit, net debt or accumulated deficit.

This accounting change has been supported by the professional accounting staff of the Office of the Provincial Controller.

We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.

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AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

- The Independent Electricity System Operator (IESO) management, IESO's Audit Committee, IESO's Board of Directors, IESO's external auditor and the Office of the Provincial Controller all support the use of rate-regulated accounting by IESO.
- In the development of Ontario's Fair Hydro Plan (OFHP), the government consulted with several third party advisors in the application of accounting standards. This is normal course of business governments take for complex transactions.

For QAs related to:	See:
Government decision to accept IESO market accounts & rate-regulated accounting	Treasury Board Secretariat

Q. Why did the IESO choose to adopt rate-regulated accounting?

The Independent Electricity System Operator (IESO) made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model and instead are recovered through rate regulation.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB).

The IESO adopted rate-regulated accounting for its year ended December 31, 2016. The impact on the financial statements of the Province is a decrease of $82 million in the 2016-17 opening accumulated deficit and an increase in the 2016-17 annual deficit by $24 million.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

Q. What was the financial impact of these accounting changes, on Ontario's electricity rate payers?

These changes in no way affect Independent Electricity System Operator's (IESO) costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

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AG Audit of 2017 Statements

- We will continue to work with the Auditor General to build on the government's track record of responsible fiscal management and high quality financial reporting.
- The Ministry of Energy, the Ministry of Finance and the Treasury Board Secretariat remain committed to assisting the Office of the Auditor General so that it can provide its independent views to the Legislative Assembly.
- With regards to the Auditor General's report on Ontario's Fair Hydro Plan (OFHP) – while the government does not agree with the assertions and conclusions expressed in the report, the government thanks the Office of the Auditor General for its report.
- While we expect professional accountants to agree on the vast majority of issues, we acknowledge that they may not agree on everything and when that occurs, and the difference is material to the financial statements, the Office of the Auditor General can choose to issue a qualified audit opinion.

For QAs related to:	See:
Relationship with Auditor General	Treasury Board Secretariat

Q. How will IESO respond to the Auditor General's decision to audit the 2017 consolidated financial statements?

The Independent Electricity System Operator (IESO) recognizes the Auditor General's statutory role and authority to perform an audit of IESO.

The IESO is cooperating with the Office of the Auditor General to provide information, including the 2017 financial statements prepared by management, and for access to management for assistance in understanding such information.

The IESO has likewise instructed its audit partner to cooperate with the Auditor General's audit.

Q. The Auditor General says that the Independent Electricity System Operator's decision to adopt rate-regulated accounting was a deviation from Public Sector Accounting Standards, and cautioned against its use in her Independent Auditor's Report. Why was this change made and was it appropriate?

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue of whether or not to adopt rate-regulated accounting as the preferred accounting method – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation or disclosure of rate-regulated activities.

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In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

Paragraph 11 of the *Introduction to Public Sector Accounting Standards* ("Introduction") states: "When applying the CPA Canadian Public Sector Accounting (PSA) Handbook, where the standards are silent on an issue, public sector entities should apply Generally Accepted Accounting Principles (GAAP), Section PS 1150."

In this case, the Independent Electricity System Operator (IESO) consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations. The IESO made the decision to adopt rate-regulated accounting because it better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO, like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board (OEB). The IESO adopted rate-regulated accounting for its year ended December 31, 2016.

This accounting change was accepted by IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. These accounting changes were highlighted in IESO's annual report which was published online in March 2017.

It is worth noting that currently 8 out of 9 electricity system operators in North American markets employ accounting for rate-regulated assets, including IESO.

Q. The Auditor General says that the use of rate-regulated accounting is inappropriate for the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) according to U.S. Generally Accepted Accounting Principles. How do you respond?

In commenting on the use of rate-regulated accounting and the role of the Ontario Energy Board (OEB), the Auditor General's report makes reference to a requirement under U.S. accounting standards in connection with the use of rate-regulated accounting that "there must be an independent regulator."

This reference is misleading as it does not provide the criteria in its entirety, which is as follows:

"The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator ***or by its own governing board empowered by statute or contract to establish rates that bind customers"*** *[ASC 980-10-15-2].*

The U.S. accounting standard was developed specifically to not preclude the application of rate-regulated accounting by government utilities where the rate regulator would not necessarily be viewed as independent (FAS 71, par. 64).

In addition, the position that rate-regulated accounting is precluded because the OEB is not considered independent of the government of Ontario is contradictory to accepting the use of rate-regulated accounting by Ontario Power Generation (OPG) and Hydro One – both of which are regulated by the OEB and whose results, using rate-regulated accounting, are and have been included in the consolidated financial statements of the Province.

IESO Response

Canadian Public Sector Accounting Standards (PSAS) are effectively silent on this issue – they neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.

In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards.

In this case, IESO consulted U.S. Generally Accepted Accounting Principles (GAAP), the appropriate accounting framework in North America that provides guidance on rate-regulated operations.

ONTARIO'S FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

- The province will continue to prepare its consolidated financial statements in accordance with Public Sector Accounting Standards (PSAS).
- The proposed accounting for the refinancing of the Global Adjustment (GA) aspect of Ontario Fair Hydro Plan (OFHP) reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers.
- PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities.
- In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards for guidance.

For QAs related to:	See:
Decision to accept OFHP accounting	Treasury Board Secretariat

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Q. Why did the government introduce the Ontario Fair Hydro Plan?

The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. OFHP lowered electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

In developing the policy to refinance the GA, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

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OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Q. What is Global Adjustment (GA)?

Global Adjustment (GA) is a mechanism that recovers certain electricity system costs, such as capital costs incurred by generators. GA is calculated by the Independent Electricity System Operator (IESO) based on the difference between the market price for electricity, which represents the marginal cost of electricity production, and rates paid to regulated and contracted generators to ensure they can recover their fixed costs. It also recovers costs associated with running conservation programs in the province.

GA has been an important factor in providing stable prices while ensuring that sufficient generating capacity is in place to deliver a clean, reliable supply of electricity.

GA pays for the bulk of the recent investments in the electricity system. The majority of the province's renewable electricity generators operate under 20-year contracts. Third-party experts have confirmed that many of these generators will be able to continue to operate beyond the end of their contract. This means that renewable generating assets are expected to have ongoing useful life and benefit future ratepayers by reducing the need to finance the development of new generating assets. This is the basis for the spreading of the costs across present and future generations of rate-payers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;

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- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with internal and external legal, accounting, financial and energy sector experts, including third-party experts, to provide advice and ensure due diligence was completed.

Q. Has the Ministry of Energy's estimate for "peak debt" related to Ontario's Fair Hydro Plan (OFHP) changed? How much is the program expected to cost?

Ontario Power Generation (OPG) has begun the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than original estimates.

Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[3]. The preliminary estimate from March 2017 was about $28 billion[4].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty-year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $28 billion[5] to approximately $20 billion[6]. These estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manager (FSM) and assume a 5 per cent interest rate.

Q. Why is the government using Ontario Power Generation (OPG) as a borrowing agent for Ontario's Fair Hydro Plan? Would it be easier to use a traditional government borrowing agent like the Ontario Financing Authority (OFA)?

Ontario Power Generation (OPG) has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA).

[3] Ministry of Energy
[4] Ministry of Energy, submission to Financial Accountability Officer
[5] Ministry of Energy
[6] Ministry of Energy

OPG currently manages approximately $20 billion[7] in segregated nuclear funds to manage nuclear liabilities, and, is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience with regulatory deferral and variance accounts.

OPG also has the breadth and demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

OPG has developed solid investor relationships and has a large investor base in the structured finance space that would be the target market for financing Ontario's Fair Hydro Plan initiative. For example, Lower Mattagami project financing attracted a broad investor base of ~80 institutional investors[8], including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt program and three project financing programs totalling more than $2 billion[9] and two commercial paper programs.

Finally, OPG's Treasury functions are well positioned given their management of existing multiple debt programs.

Q. The Auditor General and the Financial Accountability Office both suggest that the cost of borrowing will be more expensive than traditional government borrowing? Is this true?

In the development of Ontario's Fair Hydro Plan (OFHP), the government made the policy decision that deferred electricity system costs should be borne by the rate-base and not the tax-base.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible consumers.

Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary financing and commercial

[7] Ontario Financing Authority
[8] Ontario Power Generation
[9] Ontario Power Generation

expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner.

OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

With respect to the $4 billion[10] figure referenced by the Financial Accountability Office (FAO) in its May 2017 report, it should be noted that the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and electricity system cost forecasts.

Total borrowing estimates over the thirty year life of OFHP have been revised down substantially by the government since the FAO released its report in May 2017, and borrowing costs are now forecast to be substantially lower than original estimates. Current government estimates forecast that the peak debt over the thirty year life of OFHP will be approximately $20 billion[11]. The preliminary estimate from March 2017 was about $28 billion[12].

A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of OFHP and cost estimates will continue to be revised to reflect these changing conditions.

The government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of the GA refinancing program.

If pressed on the details of the revised peak debt number:

Peak debt for OFHP has been revised down substantially from March 2017, from about $ 28 billion[13] to approximately $20 billion[14]. The higher March 2017 estimate was used by the FAO in its May 2017 report.

Updated estimates are consistent with 2017 Long-Term Energy Plan (LTEP) projections, include fees charged by OPG in its role as financial service manage (FSM) and assume a 5 per cent interest rate.

[10] Financial Accountability Officer, *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan*
[11] Ministry of Energy
[12] Ministry of Energy, submission to Financial Accountability Officer
[13] Ministry of Energy
[14] Ministry of Energy

If pressed on interest costs:

The government estimates of total interest cost also decreased from $25 billion[15] to less than $19 billion[16].

Q. How does the 3.357% price of the Ontario Power Generation's Fair Hydro Trust's first issuance of senior notes compare with the Ministry of Energy's Fair Allocation Amount (FAA) assumptions?

A number of inputs will vary over the thirty-year life of the Global Adjustment (GA) refinancing program and will continue to be revised to reflect changing conditions (e.g., changes in interest rates).

The Ministry analysis underpinning the *2017 Fair Allocation Amount* (2017 FAA) included a 5.0% average interest rate over the life of the GA refinancing program (i.e., 30 years). Note: Navigant's modelling of GA refinancing assumed an interest rate of 4.5%. In the development of the 2017 FAA the interest rate assumptions were revised to 5% based on consultations with OPG.

On February 6, 2017, OPG announced that it was able to secure an interest rate of 3.357% for the senior debt on its first issuance that has a 15 year term and a value of $500 million.

OPG advises that the remainder of the debt is split between "subordinated" and "junior subordinated" debt. The effective interest rate will be the weighted average of these three series of debt (i.e., senior, subordinated and junior subordinated). OPG is expected to finalize the pricing for the subordinated and junior subordinated debt within the next 48 hours. The pricing will be based in part on the pricing of the senior series.

Q. Some say you are unfairly placing the burden of debt on future generations through things like Ontario's Fair Hydro Plan, how do you respond?

The OFHP is designed to ensure that future generations will be paying their fair share for a system they will be benefiting from in their lifetime.

Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. Since 2003, nearly $70 billion has been invested in the electricity system, including more than $37 billion in electricity generation to ensure the system is clean and reliable.

To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

[15] Ministry of Energy
[16] Ministry of Energy

- Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

- Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:
  - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.
  - Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.
  - Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.
  - Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the GA is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Moving forward, Ontario's 2017 Long-Term Energy Plan (2017 LTEP) focuses on continuing to put downward pressure on electricity bills over the long term. Our robust electricity supply puts us in a good position to improve efficiency, increase transparency and enhance opportunities for innovation and competition to further reduce system costs. That is why Ontario's Fair Hydro Plan includes a commitment to improving sector efficiency and modernizing Ontario's electricity market, building on the collaboration of the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

For example, IESO's Market Renewal initiative will result in a more efficient marketplace with competitive and transparent mechanisms that meet future system needs at the lowest cost. The initiative is expected to save up to $5.2 billion[17] over a 10-year period

[17] Independent Electricity System Operator, *Assessment of the Benefits of Market Renewal (Brattle Group)*

and forms a key component of Ontario's plan to ensure the affordability of electricity in the longer term.

Q. In the development of Ontario's Fair Hydro Plan, did the government set up the financing structure intentionally to keep it off government books?

No. GA refinancing is designed so that deferred costs are borne by the rate-base, as the beneficiaries of the electricity system, and not the tax-base.

GA refinancing operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

AG Recommendation #6: "Legislated Accounting"

- The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting.
- It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future, which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred.
- The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.

For QAs related to:	See:
Issue of OFHP "legislated" accounting	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

- A Trust structure was selected to implement the Affordability Fund in order to provide an effective solution to distributing funds to electricity distributors. With approximately 65 distributors across Ontario, it was not feasible for the Province to enter into agreements with each distributor.
- The Trust structure establishes an independent entity with expertise from the electricity distributor and community sectors.
- There are report-back requirements on the use of funds transferred as well as the ability for the government to conduct an audit to gain assurance that the funds have been used for the purposes intended.
- The government will continue to assess the most appropriate vehicle for meeting its policy objectives, which include appropriate oversight of how transfer payments are spent.

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For QAs related to:	See:
Accounting for Trust	Treasury Board Secretariat

Q. Why is there a need for an Affordability Fund?

From 2015 to early 2017, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers struggling with their electricity bills, such as those in bill arrears and facing service disconnection.

Electricity distributors reported to the Ontario Energy Board (OEB) that around 56,500 customers were disconnected in 2015 and over 58,000 customers were disconnected in 2016. Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

In January 2017, Hydro One submitted to the Ministry a report, "Addressing Affordability" which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who do not qualify for low-income conservation programs.

Q. Who is eligible to benefit through the Affordability Fund and what measures will the average household receive?

Affordability Fund was established to provide energy efficiency measures to help those Ontarians not eligible for the Save on Energy Home Assistance Program, and who need support to improve the energy efficiency of their homes.

There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors:

- Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).

- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

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Q. How many households are expected to benefit from the Affordability Fund?

Number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Customers may be eligible to receive varying levels of support based on their total household income and average electricity bill.

As of January 12, 2018, 2,522 applications had been received by the Affordability Fund Trust, of which 1,794 have been delivered to 47 active LDCs. Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018. **Note:** Numbers are not static and should be updated (closer to Public Accounts) as they become available.

Records Disclosure/Process

- The Ministry conducted a search consistent with the 40 plus search terms provided by the Auditor General.
- The Ministry of Energy has selected McCarthys/Wortzmans to assist with processing and analysis of approximately 2.2 million records that resulted from the search of 81 custodians.
- The Ministry has been regularly providing the Auditor General batches of responsive documents.

For QAs related to:	See:
Records - TBS	Treasury Board Secretariat
Records - MOF	

Q. Why has the Ministry of Energy not provided all e-mails requested by the Auditor General?

As of October 26, 2017, the Ministry has provided all responsive records (more than 73,000 emails) to the AG.

Q. How much money did the Ministry spend on lawyers?

Although the retainer agreement includes a cap of up to $500,000, the Ministry of Energy spent approximately $150,000 on the retainer.

Q. What was the Ministry of Energy's process for providing the emails requested by the Auditor General?

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The Ministry conducted a search consistent with the 40 plus search terms provided to the AG. In order to manage the approximately 2.2 million records resulted from the search of 81 custodians, the Ministry of Energy selected McCarthys/Wortzmans to assist with processing and analysis of the documents.

No legal advice on relevancy of documents was provided by Wortzmans. The Ministry completed its response to the AG on October 26, 2017.

Re-Design of Hydro Bills

- The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills.
- Comparisons of costs from previous billing periods will continue to be possible.
- Electricity bills are a customer's main window into the electricity system. Through the LTEP consultation process, the government heard that customers found their bills confusing and inaccessible.
- Hydro One has been a leader in consumer research on ways to improve the appearance and comprehension of its bill. Hydro One enlisted the services of a behavioural research firm and engaged with thousands of customers to develop a new bill design which has been observed to increase customer satisfaction and comprehension.
- Building on this research, the Ministry launched the Bill Redesign Action Plan with the aim of revising the regulatory framework on invoicing to improve the value of electricity bills for consumers. The Ministry continues to engage with industry and consumers to better understand consumer concerns and preferences with respect to the bill to ensure that any proposed changes to the bill's design will meet consumer's needs.

For QAs related to:	See:
N/A	N/A

Q. Isn't the problem the amount on people's bills, not the design?

The government recognizes that the much-needed investments in our electricity system have led to higher electricity prices. That's why the government developed Ontario's Fair Hydro Plan (OFHP) – to relieve the cost pressures caused by these system improvements.

Through the 2017 Long Term Energy Plan (2017 LTEP) consultation process, the government heard that consumers find their current bills confusing and inaccessible, as part of 2017 LTEP, the Ministry committed to continue to work with the Ontario Energy

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Board (OEB), industry and consumers to explore opportunities to redesign electricity bills to make them easier for customers to understand.

Q. How can Ontarian's know redesigning bills isn't just a way to hide increases?

The objective of the bill redesign initiative is to make bills easier for customers to understand and ensure that they get the most useful information out of their bills. Comparisons of costs from previous billing periods will continue to be possible.

Q. What Is the overall cost of the bill redesign?

Each LDC will have different costs to implement a re-designed bill depending on current billing and customer information systems. Changes to billing systems are a part of an LDC's cost of doing business.

Q. Are all customers in Ontario getting redesigned bills, or just in some areas?

All LDCs will be required to comply with any new requirements implemented as part of a bill-redesign initiative. By March 31, 2018, all LDCs will come into compliance with the new requirement to provide customer-specific OFHP savings on invoices.

Q How do the new regulatory amendments to require that LDCs provide customer-specific savings associated with Ontario's Fair Hydro Plan on invoices fit in to the broader redesign action plan?

The requirement for dynamic messaging or customer-specific Fair Hydro savings on invoices is the first step in the broader, longer term bill re-design project. Providing customer specific savings promotes greater understanding of the associated bill impacts of Ontario's Fair Hydro Plan (OFHP) for consumers.

The new regulatory amendments are being discussed with industry stakeholders as part of the bill redesign working group.

The Ministry of Energy is continuing to work with stakeholders to examine opportunities to redesign electricity bills to make them more understandable and to give consumers the information that they want on the bill.

PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

For QAs related to:	See:
Pre-Election Report on Ontario's Finances	Treasury Board Secretariat Ministry of Finance

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

For QAs related to:	See:
Ontario's Debt Burden	Ministry of Finance

Financial Accountability Office Reports

For QAs related to:	See:
FAO Reports	Ministry of Finance

Credit Ratings

For QAs related to:	See:
Credit Ratings	Ministry of Finance

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PREPARATION OF PUBLIC ACCOUNTS

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

Q. Who was involved in the policy and implementation process to meet the mandate?

Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks, make decisions and take other actions to meet the mandate.

The senior officials and staff were from:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

In development and implementation of Global Adjustment (GA) refinancing, the government considered a range of implementation options and consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed.

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat Ministry of Finance

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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2. ENE Response Table - Final - 20180207.pdf

RESPONSE TABLE

Issue/Consideration	Strategy	Key Messages
Pension Asset Accounting: Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.
IESO Accounting: **1) Market Asset Accounts** **2) Rate-Regulated Accounting** **3) AG to audit IESO's 2017 statements** 4) OPG/IESO "inappropriate expenses" 5) Peripheral: OPG Executive Compensation	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Re-iterate government's appreciation of the Auditor General's independent review and the IESO's recent unqualified audit record.	The government welcomes the Auditor General's independent review and remains committed to assisting her office in providing its views to the Legislative Assembly. The Independent Electricity System Operator's (IESO) change of accounting policy provides more transparency into the value of transactions that flow through Ontario's $17 billion electricity market and reflect the economic substance of certain types of expenses that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. The IESO's recent accounting changes are supported by IESO's audit committee, board of directors, its independent external auditor and by the Office of the Provincial Controller. The IESO prepares its financial statements in accordance with PSAS, and received an unqualified, or clean, audit opinion on its 2016 financial statements.

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Issue/Consideration	Strategy	Key Messages
Fair Hydro Plan Accounting: "convenient/inappropriate accounting"	Highlight due diligence included in OFHP decision making Refuse to speculate about AG's potential future audit opinion. Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	As part of Ontario's Fair Hydro Plan (OFHP), bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them. Given that the policy objective of OFHP is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers. Ontario Power Generation (OPG) was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations. OPG has the necessary expertise to assist with refinancing the GA and will ensure that it is done efficiently and cost-effectively. OFHP operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with PSAS and ensures that the fairness goals underlying the program are achieved in a cost-effective manner. In developing the policy, the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate. The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due

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Issue/Consideration	Strategy	Key Messages
		diligence was completed. The province will continue to prepare its consolidated financial statements in accordance with PSAS. PSAS is silent on a key accounting issue regarding the OFHP – the standards neither explicitly permit, nor prohibit, the recognition, measurement, presentation, or disclosure of rate-regulated activities. In the absence of a clear position on an issue, standard accounting practice dictates that an entity should consult other accounting standards. In this case, IESO consulted US GAAP, the accounting framework in North America that provides the most developed guidance on rate regulated operations.
Pre-Election Report: "government should publicly communicate if and when"	Re-iterate the government's commitment to working with the Office of the Auditor General. Confirm that the government will, as always, continue to follow the relevant legislation.	Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report. The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.
Debt Reduction Plan: "Ontario has the highest sub-sovereign debt in the world"	Re-iterate government's track record of responsible fiscal management and provide high-level overview of debt reduction plan.	The government's long-term infrastructure plan to invest about $190 billion over 13 years, starting in 2014-15, will contribute to the growth of the economy. The Centre for Spatial Economics found that for every $1 spent on public infrastructure, GDP increases by up to $6, on average, in the long term.
"Legislated Accounting"	Emphasize that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent.	The *Ontario Fair Hydro Plan Act, 2017* and its related regulations do not create accounting rules or legislate the accounting. It is important to distinguish legislating the accounting from legislating the right of the government to recover amounts from specified ratepayers in the future,

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Issue/Consideration	Strategy	Key Messages
	Provide example of the only time legislated accounting was used; explain how OFHP does not legislate accounting.	which in the absence of legislation, would have been collected from specified ratepayers as the costs were incurred. The province, as always, will prepare its consolidated financial statements in accordance with PSAS, including the transactions resulting from Ontario's Fair Hydro Plan.
Use of External Advisors: Perception that the government looks to external advisors to circumvent the Auditor General	Confirm that the province seeks external expertise when appropriate as a normal course of business.	The government's use of external expertise for accounting and financial reporting matters supplements its own resources on complex or emerging accounting and reporting matters. External advisors are generally engaged to provide advice and guidance to supplement internal analysis, and in the normal course of business.

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SCOPA QAs_MOF_20180122 v4.pdf

QUESTIONS & ANSWERS

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PENSION ASSET ACCOUNTING

AG Recommendation #1: Pension Asset Accounting

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

Advisory Panel Compensation

For QAs related to:	See:
Pension Asset Accounting	Treasury Board Secretariat

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IESO ACCOUNTING

AG Recommendation #2: IESO Market Accounts

For QAs related to:	See:
IESO Market Accounts	Treasury Board Secretariat Ministry of Energy

AG Recommendation #5: IESO Market Accounts & Rate-Regulated Accounting

For QAs related to:	See:
IESO Market Accounts & Rate-Regulated Accounting	Treasury Board Secretariat Ministry of Energy

AG Audit of 2017 Statements

For QAs related to:	See:
Audit of IESO statements	Treasury Board Secretariat Ministry of Energy

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ONTARIO FAIR HYDRO PLAN

AG Recommendation #3: OFHP Accounting

For QAs related to:	See:
OFHP Overall	Ministry of Energy
OFHP Accounting	Treasury Board Secretariat

AG Recommendation #6: "Legislated Accounting"

For QAs related to:	See:
OFHP Overall	Ministry of Energy
"Legislated Accounting"	Treasury Board Secretariat

AG Recommendation #9: Arm's Length Trusts

For QAs related to:	See:
OPG Accounting/Trust	Ministry of Energy
Accounting for Trust	Treasury Board Secretariat

Records Disclosure/Process

- Messaging TBC

For QAs related to:	See:
Records Disclosure/Process	Treasury Board Secretariat Ministry of Energy

1. **Has the Ministry of Finance provided all records to the Auditor General of Ontario?**

   In response to a request for information from the Auditor General's office regarding the Ontario Fair Hydro Plan, the Ontario Financing Authority (an agency under the Ministry of Finance) provided 3,252 emails in two batches: 1,190 e-mails on June 23, 2017 and 2,062 on July 18, 2017.

Re-Design of Hydro Bills

For QAs related to:	See:
Re-design of hydro bills	Ministry of Energy

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PRE-ELECTION REPORT

AG Recommendation #10: Pre-Election Report on Ontario's Finances

- Messaging TBC – TBS

For QAs related to:	See:
Pre-Election Report	Treasury Board Secretariat (Joint lead with Ministry of Finance)

2. **Will the government issue a regulation confirming the source of reference for the Pre-Election Report and the timeline for issuance of the report that will be subject to the Auditor General's review?**

   Under the *Fiscal Transparency and Accountability Act, 2004*, the government may file a regulation that would require it to release a Pre-Election Report on Ontario's Finances. Should the government file such a regulation, the Auditor General would be required to issue a statement based on a prompt review following the release of such a Pre-Election Report.

   The government remains committed to meeting the legislative requirements of the Act, and working constructively with the Auditor General.

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PROVINCE'S FISCAL SITUATION

Recommendation #7: Province's Debt Burden

- The balanced budgets from 2017–18 onwards will limit the increase in net debt-to-net investments in capital assets. These investments will contribute to the economy growing at a faster rate than net debt, allowing the government to reduce Ontario's net debt-to-GDP ratio to its pre-recession level of 27 per cent.
- There is a strong demand for Ontario bonds in both the domestic and international markets. Last fiscal year, Ontario was able to borrow $27 billion in long-term debt while our spread — or the margin that we have to pay over the equivalent Government of Canada bond — tightened, indicating an ongoing strong demand for Ontario bonds.
- We expect that the liquidity of Ontario benchmark bonds, and continuing confidence in the value of Ontario debt, will allow us to cost-effectively complete the 2017–18 borrowing program.

3. What is the government doing to manage the province's debt burden?

The very important first step in reducing debt is to balance the budget. We are projecting a balanced budget for 2017-18, delivering on a commitment first introduced in the 2010 Budget.

As the result of a balanced budget, and Ontario's strong economic growth, the net-debt-to-GDP ratio is declining.

The government has set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

4. What is the status of the province's borrowing plan?

Through prudent and cost-effective debt management, we have consistently kept interest on debt costs below budget projections. Interest on debt to revenue is forecast to be 8.2 per cent in 2017-18, 8.3 per cent in 2018-19 and 8.4 per cent in 2019-20.

Term extension has allowed us to take advantage of and lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on interest on debt costs.

As of January 31, 2018, $28.6 billion (or 111 per cent) of this year's long-term public borrowing of $25.8 billion has been completed.

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Financial Accountability Office (FAO) Reports

5. **What is the government's response to the FAO's fall 2017 report, which states that the government will run a deficit in 2017-18 and the following years?**

   Ontario's deficit for 2016-17 was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget, according to public accounts.

   The Ministry of Finance is projecting a balanced budget in 2017-18. The Ministry of Finance is committed to a responsible fiscal plan. We build prudence into our forecasts.

   Since the time of the 2017 Budget, private sector forecasters have revised up their economic growth projections for Ontario over the 2017-20 period, reflecting the strength in the Ontario economy.

   Using the government's accounting presentation (i.e. excluding the AG's recommended treatment), the FAO is projecting a small surplus in 2017-18.

6. **Why are the FAO's revenue forecasts lower than the government's revenue forecasts?**

   The government is projecting total revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20. This represents an average annual growth rate of 4.0 per cent.

   Growth in revenues over the medium term is driven mainly by taxation revenue which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The projected taxation revenue growth aligns with growth actually experienced in recent years, and projections for the Ontario economy.

Credit Ratings

- Ontario currently maintains a double-A rating with three of its four credit rating agencies.
- We continue to update the rating agencies on a regular basis on economic and fiscal developments.

7. **What are the credit rating agencies' views on Ontario?**

   Following the release of the 2017 Budget, all four rating agencies — Moody's, DBRS, Fitch, and S&P — confirmed Ontario's long-term credit ratings.

   This reflects rating agencies' confidence in our government's fiscal plan.

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8. How have rating agencies responded to the qualified opinion on the public accounts and the recent report from the Auditor General?

The rating agencies make their own assessment of the Province's finances.

However, there were no credit rating implications either this year or last when the government received a qualified audit opinion on its Public Accounts.

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Preparation of Public Accounts

AG Recommendation # 4: External Advisors

For QAs related to:	See:
External Advisors	Treasury Board Secretariat

1. **Q re: Ministry of Finance use of external advisors**

   Answer….

AG Recommendation #8: Timeline of Finalization of Financial Statements

For QAs related to:	See:
Finalization of Financial Statements	Treasury Board Secretariat

1. **QAs on finalization of financial statements – tax revenues, etc.**

   Answer…

Audit Opinion

For QAs related to:	See:
Audit Opinions	Treasury Board Secretariat

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OTHER

- MOE Key Message 1
- MOE Key Message 2
- MOE Key Message 3
- MOE Key Message 4
- MOE Key Message 5

1. **Qs that may come up that are not included in the categories above…**

   Answer…

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A.pdf

Attachment A. TBS Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. ENER Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

C.pdf

Attachment C. MOF Long-Form Member QAs (0 Bytes) cannot be converted to PDF format.

TBS Long-Form Member Questions_20180208.pdf

LONG-FORM MEMBER QUESTIONS

1. Can you outline the process for putting Public Accounts together every year?

2. How is the government making sure that the Public Accounts are open and accessible to everyone in Ontario?

3. What are some of the accounting changes made to Public Accounts this year? Could you speak specifically to the accounting changes made for hospitals, school board and colleges as well as government business enterprises?

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SCOPA Ch 2_QA_Friendly_ENERGY IESO OPG - 20180208 - Approved.pdf

Ministry of Energy – Proposed Friendly Questions:

1. **To the Deputy Minister of Energy, why is keeping the financing costs of Ontario's Fair Hydro Plan (OFHP) on the rate-base, as opposed to the tax-base appropriate?**

   And, why is Ontario Power Generation (OPG) best placed to minimize the cost of the overall program from your perspective?

   Policy Objectives of Ontario's Fair Hydro Plan

   Over the last decade Ontario has rebuilt our transmission and distribution grid, invested in clean generation, and closed the last coal-fired power plant. The government has been making important investments in a cleaner and more reliable electricity system, but these investments have led to higher bills. Since 2003, nearly $70 billion[1] has been invested in the electricity system, including more than $37[2] billion in electricity generation to ensure the system is clean and reliable.

   Ontario's Fair Hydro Plan (OFHP) is delivering the single-largest reduction in electricity rates in the province's history. Ontario's Fair Hydro Plan has introduced new measures to lower electricity bills by 25 per cent on average for residential consumers and will hold increases to the rate of inflation for four years. As many as half a million small businesses and farms are also benefitting from a reduction.

   To address the impact of our electricity system investments on consumers, Ontario's Fair Hydro Plan includes:

   - Refinancing the Global Adjustment (GA) over a longer term period for Regulated Price Plan (RPP) eligible consumers, including families, small businesses and farms.

   - Helping vulnerable electricity consumers by enhancing electricity support programs and shifting costs off the electricity bill. Eligible consumers will receive additional funding through assistance programs including:

     - Establishing a new Affordability Fund which will support Ontarians who are not eligible for the Home Assistance Program and who have difficulty paying their electricity bills.

[1] Ministry of Energy, *2017 Long-Term Energy Plan*
[2] Ministry of Energy, *2017 Long-Term Energy Plan*

- Broadening Rural or Remote Rate Protection (RRRP) to provide distribution charge relief for the customers of the local distribution companies (LDC's) with the highest distribution charges.

- Expanding the Ontario Electricity Support Program (OESP) to increase participation and provide further assistance to eligible participants.

- Establishing a new On-Reserve First Nations Delivery Rate.

- Improving sector efficiency and modernizing Ontario's electricity market, working in collaboration with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB).

- Any rate increases over the next four years will be held to the rate of inflation.

In the development of Ontario Fair Hydro Plan, the government made the decision to provide rate relief to specific residential consumers thought the introduction of new and enhanced electricity social programs, such as OESP and RRRP. At the same time, the government also made a policy decision that these new measures would be more appropriately funded from the tax-base, not the rate-base.

If pressed on the cost of these new and enhanced social programs:

On March 2, 2017, the government publicly announced the enhancement of the existing OESP and RRRP and the new Affordability Fund and on-reserve First Nations delivery credit. At the time, the government indicated that these new measures would cost the government up to $2.5 billion over the next three years.

Refinancing the Global Adjustment

To reduce pressure on today's electricity consumers, a portion of Global Adjustment (GA) costs is being refinanced. In later years, the cost of financing will be recovered from consumers.

Refinancing the Global Adjustment (GA) is providing significant and immediate rate relief by spreading the cost of electricity investments over the expected lifecycle of the infrastructure that has been built. The majority of the province's electricity generators have 20-year contracts. Many of these generators will be able to operate past their contract term, meaning that generating assets are expected to have ongoing useful life and will benefit future ratepayers by reducing the need to finance the development of new generating assets.

Electricity bills have been reduced for current ratepayers, and future ratepayers will in turn pay for their fair share of the significant investments that we've made to build

a clean and reliable electricity system. This more fairly shares the cost of our investments across the generations of electricity ratepayers who will benefit from them.

Given that the policy objective of Ontario Fair Hydro Plan (OFHP) is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the rate-base – not the tax-base. We believe it is appropriate for ratepayers to pay for the financing of electricity assets.

In addition, the rate-base has a different risk profile than the tax-base, which is reflected in different financing costs. Having the rate-base pay for financing of electricity system assets is not a new policy; for example Hydro One has borrowed in the capital markets since the early 2000s.

Based on this policy decision, it was decided that the debt obligation would be recognized as a regulatory asset that would be sold and securitized. This design appropriately aligns the costs and benefits within the group of eligible electricity consumers.

Ontario's Fair Hydro Plan (OFHP) operates under a financial and accounting framework that is appropriate for the intended purpose and in accordance with Public Sector Accounting Standards (PSAS) and ensures that the fairness goals underlying the program are achieved in a cost-effective manner.

Development of Ontario Fair Hydro Plan (OFHP)

In developing the policy to refinance the Global Adjustment (GA), the government considered a range of implementation options. Senior officials and staff from several departments and agencies, led by the Ministry of Energy, collaborated to plan a structure, identify risks and take necessary actions to meet the mandate.

The senior officials and staff included:

- Ministry of Energy;
- Ministry of Finance;
- Treasury Board Secretariat;
- Office of the Provincial Controller;
- Cabinet Office;
- Ontario Financing Authority (OFA);
- Independent Electricity System Operator (IESO); and
- Ontario Power Generation Inc. (OPG).

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The government also consulted with legal, accounting, financial and energy sector third-party experts to provide advice and ensure due diligence was completed. This is normal course of business governments take for complex transactions.

Role of Ontario Power Generation (OPG)

With respect to Ontario Power Generation (OPG), it was identified as the Financial Services Manager (FSM) responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the debt obligations associated with Global Adjustment (GA) refinancing. Financing requirements are determined by the legislation and will be funded through the Trust.

Ontario Power Generation (OPG) is uniquely positioned to be the Financial Service Manager (FSM), it understands the characteristics of the market, regularly interacts with the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO).

Ontario Power Generation (OPG) has extensive experience in the Ontario energy market, capital markets, regulation and fund management and will ensure that the refinancing will be done in the most efficient and cost-effective manner.

Ontario Power Generation (OPG) currently manages approximately $20 billion in nuclear funds through the Decommissioning Segregated Fund and the *Used Fuel Segregated Fund* to manage nuclear liabilities, $15 billion in pension funds and is an electricity sector entity regulated by the Ontario Energy Board (OEB) with extensive experience in regulatory deferral and variance accounts.

Ontario Power Generation (OPG) has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization programs and highly successful project debt issuances tied to new hydroelectric developments. These financing initiatives have been well received by investors at a reasonable cost to Ontario Power Generation (OPG). The innovative, cost saving and precedent setting aspects of these structures have resulted in international recognition.

In addition to executing hundreds of millions in project financing over the past several years, Ontario Power Generation (OPG) completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.

Ontario Power Generation (OPG) has developed solid investor relationships and has a large investor base in the structured finance space that comprises the target market for financing Ontario's Fair Hydro Plan (OFHP) initiative. For example, the Lower Mattagami project financing attracted a broad investor base of ~80

institutional investors, including major investors in the Canadian power and utility bonds markets.

Ontario Power Generation (OPG) has a strong track record of producing high-quality financial reports on a timely basis. In addition, Ontario Power Generation (OPG) will report on the activities of the Fair Hydro Trust in its quarterly financial reporting. The Fair Hydro Trust will be reported as a separate segment in these public documents

In terms of administration, Ontario Power Generation (OPG) is currently managing its own corporate public debt program, three project financing programs totaling more than $2 billion and two commercial paper programs.

Finally, Ontario Power Generation's (OPG) Treasury functions are well positioned given their management of existing multiple debt programs.

As the implementation of the financing program progresses, focus has remained on minimizing costs to ratepayers. Particular attention has be given to achieving a strong credit rating for the Trust, with the objective of mitigating the impact to ratepayers through effective market pricing of the funds being borrowed by the Trust.

Ontario Fair Hydro Plan (OFHP) is delivering much-needed rate relief to electricity consumers. The policy decisions we have made in implementing Global Adjustment (GA) refinancing, in consultation with third-party experts, senior officials and staff from across government, most effectively achieve the policy goals of the refinancing program and ensure that the cost of important investments in the electricity system are allocated fairly amongst electricity consumers in proportion to the benefit from received from them.

2. **To Independent Electricity System Operator (IESO), how did IESO come to the conclusion that it was acceptable to use US Generally Accepted Accounting Principles (GAAP) instead of Public Sector Accounting Standards (PSAS) for rate regulated activities?**

   And, is there a clause or section of PSAS that permits the use of GAAP in a given scenario?

   <u>Response</u>

   <u>Independent Electricity System Operator's Approach to Accounting</u>

   The Independent Electricity System Operator (IESO) follows Public Sector Accounting Standards (PSAS) for its accounting.

The PSAS neither explicitly permits, nor prohibits, the recognition, measurement, presentation or disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity is entitled to consult another accounting standard. If I may cite from the PSAS Handbook, Section 1150.18 and 19:

> *"Paragraphs PS 1150.19-.24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult.*
>
> *For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."*

In this case, IESO consulted US GAAP, the only accounting framework in North America that provides guidance on rate regulated operations. The IESO has since adopted aspects of the US GAAP accounting framework allowing IESO to recognize a regulatory asset.

This decision was supported by an accounting opinion from our external auditors at KPMG and aligns IESO with six of the eight other independent system operators in North America.

It's a decision IESO made after careful consideration and extensive consultation with external experts. In fact, more than one of the big-four accounting firms agree with our decision on this matter. The IESO regularly reviews its accounting policies to ensure our financial reporting best represents our operations and the substance of the accounts we oversee.

Prompted by conversation with government about Ontario's Fair Hydro Plan (OFHP) and recognizing the need to consider impacts of future government policy, IESO revisited its options for reporting market accounts and recognizing regulatory assets.

Working with its audit partner KPMG, IESO determined that there were reporting options for market accounts and regulatory assets and that a choice was required as to whether or not to report these in IESO financial statements.

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By analyzing the nature of the accounts, IESO's economic relationship to them, legislative requirements and market rules it was concluded that an appropriate position for either treatment was acceptable.

Organizations in Other Jurisdictions

When we started looking into changes to our accounting policies, we wanted to look at other organizations that have similar mandates to us.

Including IESO, there are 9 independent system operators in North America; seven in the U.S. and two in Canada: The IESO and Alberta's AESO.

We had discussions with these organizations about their operations and accounting practices.

We looked at their location, the accounting framework they follow, the type of organization they are (either not-for-profit or otherwise), whether they are subject to income tax, their capital structure, how they are governed, by which body they are regulated, and finally, whether they recognized balances of market participants and regulatory assets in their financial reporting.

From this research, we found that 7 of the other 8 ISOs recognize the balances of the market participants. They are:

1. **ISO New England;**
2. **NYISO**, in New York;
3. **MISO**, Midcontinent ISO which covers Midwest United States, Manitoba, and much of Arkansas, Mississippi and Louisiana;
4. **PJM**, covering the eastern U.S. states: Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia;
5. **CAISO**, in California;
6. **ERCOT**, in Texas; and
7. **Southwest Power Pool**, in central US.

When we talked to our counterparts across North America about regulatory assets, we found out that 6 of the other 8 entities recognize the economic effects of rate regulation, they are:

1. **AESO**, in Alberta;
2. ISO New England;
3. NYISO;

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4. MISO;
5. PJM; and
6. ERCOT.

I should mention that the two ISOs that do not recognize the effect of rate regulation are California ISO (CAISO) and Southwest Power Pool (SPP).

When we talked to CAISO, we found out that their accounting framework actually allows for the recognition of regulatory assets and liabilities, but that it had concluded the need to recognize regulatory assets was no longer necessary.

When we talked to Southwest Power Pool, we learned that they simply do not have any variance accounts that would qualify as regulatory assets or liabilities.

So, when we looked at making the accounting change we considered that:

1. Including **market accounts** on our financial statements would provide increased transparency into the value of transactions that flow through Ontario's $17 billion electricity market;
2. That **regulatory accounting** better reflected the economic substance of certain types of IESO expenses (like Smart Metering Entity expenses) which are recovered through a rate regulated by the OEB;
3. That the change would **enhance the relevance, transparency and accountability of our financial reporting**;
4. That this change would **bring IESO in line with its peers** across North America; and
5. Finally, that this accounting change would in **no way affect IESO's costs, or have any financial impact on electricity ratepayers –** all these factors confirmed our decision to make the accounting change.

Ultimately, IESO felt the public reporting of market accounts was relevant to the needs of its financial statement users and enabled greater transparency into the market transactions it oversees, which amounted to $17 billion last year.

We also felt that recognizing regulatory assets would provide more transparency into the substance of the variance accounts we oversee.

As we just covered, this change to recognize regulated assets and market accounts brings IESO in line with accounting practices followed by other independent system operators in North America.

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I should also mention, that in the past, the Ontario Power Authority, a predecessor organization of IESO, reported a subset of the market accounts on its financial statements – so this isn't new.

Role of an Independent Audit Firm

To confirm our view that the change was appropriate, IESO engaged independent audit firm KPMG for accounting research on the matter.

KPMG conducted its own research into the issue. KPMG subsequently issued a white paper on the accounting change, supporting IESO's decision to change its accounting policy. The changes were also reviewed with and supported by the Office of the Provincial Controller.

The accounting change was reviewed by IESO's Board of Directors, and approved.

As part of our regular 2016 year-end audit, KPMG issued an accounting opinion on our financial reporting. The accounting firm issued an unqualified or "clean" accounting opinion, meaning they supported the decision.

Finally, when publishing our 2016 financial statements, in order to communicate the change of accounting policy, IESO added additional notes in its 2016 financial statements to explain the changes in the Summary of Significant Accounting Policies section of its 2016 annual report.

These changes in no way affect IESO's costs, or have any financial impact on electricity ratepayers.

Ultimately, IESO made these changes because it will provide the users of its financial statements greater transparency into the market transactions it oversees, which amounted to $17 billion last year, and better reflects the economic substance of IESO expenses that are recovered through rate-regulation.

It is KPMG's responsibility to express an opinion on the financial statements based on their audit.

In our case, KPMG conducted their audit in accordance with Canadian generally accepted accounting standards.

Those accounting standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the entity's financial statements are free from material misstatement.

Here are some of the things an audit looks into:

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

- The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

- In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

In addition, an audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In IESO's 2016 financial statements, KPMG stated: "We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion".

This was followed by a statement of their unqualified opinion:

- In our opinion, the financial statements present fairly, in all material respects, the financial position of IESO as at December 31, 2016, and its results of operations and the changes in its new debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

This is taken directly from our 2016 financial statements, which are publically available.

So the "unqualified opinion" is basically accounting-speak to say that the audit partner undertook the thorough audit process, applied the appropriate standards and believes the financial statements follow the appropriate accounting standard and fairly and accurately represent IESO's financial position at year-end.

KPMG also found that US GAAP was an appropriate accounting framework to look to for guidance on rate-regulated operations, since PSAS was silent on the issue. And that regulatory assets under ASC 980 is not an exemption from the application of US GAAP.

Finally, KPMG's research also found that the accounting change would bring IESO in line with the majority of its ISO peers across North America.

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When we considered the results of our own and KPMG's research, along with the fact that the change would have no impact on IESO's costs, or have any financial impact on electricity ratepayers, we went ahead and made the accounting change.

3. To Ontario Power Generation (OPG), can you explain what sort of external expertise OPG enlisted?

And, can you explain what counsel these experts provided with respect to the structure that has been set up and the accounting that will be used?

Response

Ontario Power Generation's Qualifications

Let me make a few remarks about Ontario Power Generation's (OPG) qualifications as the financing manager of Ontario's Fair Hydro Plan.

OPG currently manages a $20 billion nuclear fund and $15 billion in pension funds and as an entity regulated by the Ontario Energy Board (OEB), OPG also has extensive experience with regulatory deferral and variance accounts.

In addition, OPG has the breadth and demonstrated track record in the financial markets including the highly successful inaugural public debt offering earlier in October, private placement of insurance linked bonds, participation in securitization programs, and the very successful project debt issuances tied to new hydroelectric developments.

These financing initiatives have been well received by investors at a reasonable cost to OPG. The innovative, cost saving and precedent setting aspects of these financing structures have resulted in international recognition.

OPG has also developed solid investor relationships and has a large investor base in the structured finance space who would be the target market for financing Ontario's Fair Hydro Plan initiative.

For example, the Lower Mattagami project financing attracted a broad investor base of about 80 institutional investors, including major investors in the Canadian power and utility bonds market.

In terms of administration, OPG is currently managing its own Corporate public debt and three project financing programs totaling more than $2 billion, as well as two commercial paper programs.

Role of Ontario Power Generation as the Finance Service Manager

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OPG is acting as the Finance Service Manager (FSM) as prescribed under the Ontario Fair Hydro legislation, assigned to develop the financing plans and manage the Fair Hydro Trust, which manages the debt obligations associated with Global Adjustment (GA) refinancing.

In December we set up the Fair Hydro Trust, which is ring fenced from the generation activities of OPG in an effort to reflect the unique nature of this business and not co-mingle the operational activities of the two businesses.

The financing requirements are determined by the legislation and the reduction in consumers' bills, and are funded through the Trust.

OPG is responsible for arranging for third party debt to finance the purchase of the regulatory asset from IESO. This funding will be supplemented by both the Province and OPG.

- The first tranche of public debt was issued in early February 2018.

- The Trust will continue to borrow funds through the debt markets 3-4 times each year to purchase assets from Independent Electricity System Operate (IESO).

OPG is uniquely positioned to be the financing manager of Ontario's Fair Hydro Plan as we understand the supply and demand characteristics of the market. As previously mentioned, we regularly interact with the Ontario Energy Board (OEB) and the IESO, and we have experience in Treasury operations in the marketplace including relationships with credit rating agencies.

There are three specific areas that we supplemented our team with external resources.

- First, was legal advice to ensure there is clear alignment between the legislation and the Trust and its related requirements and obligations.

- The second was financing advice directed at the capital markets again to ensure alignment with the markets focused on achieving the most cost effective financing to ensure the rate payer impact is minimized.

- The third was accounting advice directed at the set up and governance of the Trust and then to achieve the transparency in reporting that is critical.

Greater Transparency

As has been mentioned OPG has strong capabilities across these areas, but felt it was prudent to ensure that all steps are taken to establish the Trust and its activities in a clear and transparent manner.

The structure that has been set up in fact ensures a high level of transparency.

As these deferred amounts are funded through third party financing, the process by design in financial market space requires disclosure and oversight including credit rating agencies, the OEB, external audit of the Trust itself, additional OPG disclosure in its reports, oversight from lenders through Trust indenture documents.

Ratepayers and taxpayers will be able to clearly see the financial results of the Trust as it relates to the legislation.

Due to OPG's ownership and control over the key activities of the OPG's Fair Hydro Trust, OPG will consolidate the financial results of the Trust in accordance with US GAAP.

OPG will report the financial results of the Trust's operations as part of its regular quarterly and annual reporting process, beginning in March 2018.

The Trust's activities will be clearly reported as a separate segment in OPG's overall results.

OPG's financial reports are audited (currently by ERNST & Young) and filed with the Ontario Securities Commission (OSC) and subject to OSC oversight and a public news release is always issued when the reports are filed.

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LONG-FORM MEMBER QUESTION: BALANCED BUDGET

DEPUTY MINISTER SCOTT THOMPSON

Question:

- How is Ontario planning to keep a balanced budget?

Answer:

- TBD: Revisions based on updates related to Q3 Finances once available
- My ministry has been working to execute the government's goal of balancing the budget.
- This started with a plan that was first introduced in the *2010 Budget*, when the province started to recover from the recession.
- Ontario today is projecting a balanced budget for 2017–18 and for the next two years, 2018–19 and 2019–20.
- A balanced budget makes available more investment options to spur economic growth and job creation, and helps protect the programs and services people rely on most, such as health care and education.
- Ontario's plan has five main areas of focus:
    - Maximizing revenues without causing undue tax burdens on Ontarians
    - Managing its expenses without detracting from the quality of social services and health programs
    - Balancing revenues and expenses against each other to manage the debt
    - Funding programs that help Ontarians, and
    - Investing in infrastructure to promote economic growth and job creation.

- I will now address each area in turn.

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Revenues:

- The 2016–17 Public Accounts show that Ontario's deficit for last year was $991 million — $3.3 billion lower than projected in the 2016 Budget and $0.5 billion lower than the interim projection in the 2017 Budget.
- Fiscal 2016–17 was the eighth year in a row that the Province has beaten its deficit target.
- This was a result of growth in revenue that exceeded growth in program expenses, and lower-than-forecast interest on debt.
- And so part of the plan to balance the budget involves optimizing assets and maximizing revenues.
- The Public Accounts for 2016–17 show total revenues were $140.7 billion, $2.2 billion higher than the 2016 Budget projection.
- Additionally, Ontario's total revenues are projected to grow from this $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This increase represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 — and the projected growth of revenues through 2019-20 — are largely due to higher-than-expected tax revenues, the optimization of government business enterprises, and transfers from the Government of Canada and other non-tax revenue.

- First, let me address tax revenues.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent.
- For fiscal year 2016–17, tax revenues were $293 million higher than projected, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- Secondly, the Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of shares in Hydro One, LCBO head office lands and Ontario Power Generation's head offices.
- The net revenue gains from the sale of qualifying assets are credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit.
- The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion.
- The Province continues to grow and maximize revenues from its government business enterprises, such as Hydro One, Ontario Power Generation, the Liquor Control Board of Ontario and Ontario Lottery and Gaming Corporation.
- The forecast of the income from government business enterprises is projected to grow by $0.7 billion between 2016–17 and 2019–20.
- This projection, at an average annual rate of 3.7 per cent, reflects higher net income overall from government business enterprises.

- Thirdly, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017-18 *First Quarter Finances*.
- The forecast for subsequent transfers is based on existing federal-provincial funding agreements.
- Overall transfers are projected to grow by $0.9 billion between 2016–17 and 2019–20, or at an average annual rate of 1.2 per cent.
- This largely reflects projected increases in major ongoing Government of Canada transfers and new funding for early learning and child care, and home care and mental health.

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- Finally, the forecast for other non-tax revenue is based on projections provided by government ministries and agencies.
- The outlook for other non-tax revenues is projected to increase by $0.4 billion between 2016–17 and 2019–20, or at an average annual rate of 0.7 per cent.
- This increase mainly reflects:
    - Fiscally neutral revenues from carbon allowance proceeds starting in 2017–18
    - Fees, donations and other revenues for the broader public sector, and
    - Revenues from vehicle and driver registration fees.
- This is partially offset by lower revenues due to the removal of the debt retirement charge from commercial, industrial and all other electricity users in 2018–19, and the projected net impact of the government's planned asset optimization strategy.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Let me now address expenses.
- The Public Accounts for 2016–17 show that total spending was $141.7 billion, $100 million lower than the 2016 Budget projection.
- Program spending expenses accounted for $130 billion.
- Interest on debt, at $11.7 billion, was down $0.7 billion from the 2016 Budget projection.

- Going forward, program expenses are projected to grow from $130 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Growth in program expenses over the medium term is driven by investments to help the people of Ontario, such as health care, supports for seniors, the

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introduction of pharmacare for children and youth under OHIP+, electricity cost relief programs under the Fair Hydro Plan, and new initiatives for small businesses that will lower costs and support growth.

- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This increase is due to borrowing for capital spending and interest rates that are forecast to rise.
- This represents an average annual growth rate of 4.2 per cent.
- Interest on debt is projected to grow due to borrowing for capital spending and interest rates that are forecast to rise.
- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.

Balancing Revenues and Expenses:

- Let me summarize the revenues and expenses together.
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

Funding Programs, Investing in Infrastructure, Promoting Growth:

- Through targeted, measured and fiscally responsible decisions, Ontario has restored its fiscal and economic strength.
- Strategic investments have helped stimulate the Ontario economy to rise from the depths of recession.

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- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- The benefits of balanced budgets and a strong economy are already providing the government with the fiscal flexibility to do more to help Ontarians.
- This flexibility enables the government to provide more investments to spur economic growth, job creation and support services people use every day.
- Notable program investments include:
    - $145 million in annual funding to increase the accessibility and affordability of high-quality licensed child care and early learning opportunities
    - $245 million over three years to lower costs for small businesses
    - $155 million over three years to support seniors to remain independent, connected, engaged, healthy and safe
    - $245 million over three years to lower costs for small businesses, create opportunities for growth and simplify their interactions with government.
    - An increase of $1 million in 2017–18 — and then $5 million in 2018–19 and beyond — to provide additional funding through the Northern Communities Grant component of the Ontario Municipal Partnership Fund.

- Growth in program expenses also includes investments in infrastructure.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.
- The government's historic investment in infrastructure includes:
    - $31.5 billion over 10 years for public transit, transportation and other priority infrastructure projects across Ontario
    - $11 billion over 10 years in capital grants to school boards, and
    - $900 million over 10 years for critical maintenance repairs and upgrades.

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- These investments will not only create jobs, support business innovation and help draw investors from abroad — they will also contribute to the provincial economy growing at a faster rate than the change in its net debt.
- Investments such as these have helped to stimulate the Ontario economy, which has continued to grow despite an uncertain global climate.
- From 2014 to 2016, Ontario outpaced all G7 countries with its real GDP growth.
- As the result of a balanced budget and Ontario's strong economic growth, the net debt-to-GDP ratio is declining.
- In the 2017 Budget, the Ontario government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24. The government is now projecting to meet this target a year earlier.
- We continue to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.

Conclusion:

- In September, the Public Accounts of Ontario 2016–17 reported that the 2016–17 deficit was $1.0 billion, an improvement of $3.3 billion from the $4.3 billion projection in the 2016 Budget.
- Total revenue for 2016–17 came in at $140.7 billion, which was $2.2 billion higher than the 2016 Budget.
- This was largely due to higher-than-expected tax revenues, the optimization of government business enterprises and transfers from the Government of Canada and other non-tax revenue.
- Total spending for 2016–17 came in at $141.7 billion, which was $0.1 billion lower than the 2016 Budget.
- Program spending was $130.0 billion, up $0.6 billion from the plan of $129.4 billion.

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- Spending in health, children's and social services, and other programs was higher than planned.
- Interest on debt expense was $11.7 billion, $0.7 billion below the plan of $12.4 billion, due mainly to lower-than-forecast interest rates, and cost-effective borrowing and debt management.
- In conclusion, the Ontario government is on track to balance the budget this fiscal year — 2017–18 — as well as the next two fiscal years.
- Prudently managing the province's finances is one of my ministry's responsibilities to the people of Ontario.
- Thank you.

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SCOPA_MOF_long form QA_Credit Rating_v11.pdf

LONG-FORM MEMBER QUESTION: CREDIT RATING

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What are the plans to keep Ontario's credit rating in good standing?

Answer:

- TBD: Revisions based on updates related to Q3 Finances, once available.

Introduction:

- Following the release of the 2017 Ontario Budget, four credit rating agencies – Moody's, DBRS, Standard & Poor's and Fitch – confirmed Ontario's healthy long-term credit ratings. This reflects rating agencies' confidence in the Government's fiscal plan – and its ability to grow Ontario's economy and create jobs for Ontarians.
- Let me summarize the reports by each of the credit rating agencies.

- First, Moody's.
- Moody's cautioned that the Ontario Fair Hydro Plan, announced in March 2017 to reduce electricity prices, adds credit pressure due to the direct financial impact of the sales tax rebate and the indirect impact of an elevated debt of a provincially owned entity.
- Overall, however, Moody's said its stable outlook for Ontario "reflects Moody's forecast that, as the province moves towards and achieves balanced budgets,

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the province's debt burden will improve marginally and interest expense will remain manageable across the medium-term….The policy decision to borrow for infrastructure spending at a time of historically low interest rates, combined with the prudent debt management practices outlined above, has helped to support the province's Aa2 rating."

- Moody's positive outlook for Ontario's credit rating is based on the following credit strengths: prudent debt management, an institutional framework providing significant fiscal policy flexibility, and a large diversified economy supporting a broad and productive tax base.

- Next, DBRS.
- DBRS noted that Ontario's credit profile is stable, but it will remain vulnerable to an economic shock in the absence of a more concerted effort to reduce debt.
- DBRS also commented on the potential downside risks to the economic outlook due to uncertainty regarding the potential renegotiation of NAFTA and U.S. tax policy, as well as political integration in Europe.
- Finally, it noted that elevated household debt and housing market dynamics leave Ontario particularly vulnerable in the event of an unforeseen shock that results in significant job losses or a rapid increase in interest rates.
- Despite these concerns, DBRS expects Ontario's credit ratings to remain stable.
- DBRS said of Ontario, its "ratings remain well supported by the province's large and diversified economy, improving budgetary results and declining debt burden" and that "the return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term."
- DBRS concluded by saying that Ontario's stable credit profile stems from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

- Standard & Poor's is next.

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- Standard & Poor's believed that Ontario's credit profile is strengthening.
- But before considering a positive rating action, they would need to see sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden, making Ontario's finances more comparable with peers in the 'AA' category.
- Standard and Poor's said it "expects the province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget."
- Standard & Poor's concluded by saying that its stable outlook reflects expectations that, within the next two years, the Province will sustain a more balanced budgetary performance, including steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

- Finally there is Fitch.
- Fitch's report stated that the Province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives.
- It said Ontario's 'AA-' rating is supported by its wealth, diversified economy and generally sound financial management.
- Fitch's rating reflected the Province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework and low contingent liabilities.
- Ontario's credit profile is stable.

- For Ontario's credit profile to grow in strength, the Province will need to do several things.
- It will need to show a track record of consistent operating surpluses and balanced or near-balanced after-capital results, coupled with continuing declines in direct and tax-supported debt burdens.

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- **To that end, Ontario has the following plan to ensure that its credit rating remains in good standing.** It is:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Managing expenses without detracting from the quality of social and health services.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Maintaining a reserve fund to mitigate unforeseen financial risks.
- I will now go into more detail on each of these points.

Revenues:

- Total revenues for 2016–17 were $140.7 billion, $2.2 billion higher than the 2016 Budget.
- Additionally, Ontario's total revenues are projected to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- This represents an average annual growth rate of four per cent.
- The higher revenues for 2016–17 and the projected growth of revenues through 2019–20 are largely due to three factors:
    - Higher-than-expected tax revenues.
    - Income from government business enterprises and fees, and
    - Transfers from the Government of Canada and other non-tax revenue.
- Growth in revenues over the medium term is driven mainly by taxation revenue, which is projected to increase by $15.6 billion between 2016–17 and 2019–20, or at an average annual rate of 5.2 per cent. The taxation outlook reflects current revenue information and projections for the Ontario economy. Tax revenues were $293 million higher than projected in 2016–17, mainly due to higher-than-expected Harmonized Sales Tax revenue, reflecting stronger growth in Ontario household expenditures.

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- The Government of Ontario is also implementing a multi-year strategy to optimize its assets and maximize its revenues through the sales of Hydro One, LCBO head office lands and Ontario Power Generation's head offices. The total amount credited to the Trillium Trust as of March 31, 2017 is $5.3 billion. The net revenue gains from the sale of qualifying assets will be credited to the Trillium Trust for infrastructure investments, such as roads, bridges and public transit, under the Moving Ontario Forward plan. In 2016–17, the Trillium Trust was drawn down by approximately $260 million to help support these projects.
- Finally, Ontario received larger Government of Canada transfers — $145 million higher. This increase reflected new funding for early learning and child care flowing from a bilateral agreement between Ontario and the federal government, as previously reported in the 2017–18 *First Quarter Finances*.
- Notably, the increase in Ontario's revenue is not attributable to increases in personal tax returns.

Expenses:

- Ontario's total spending for 2016–17 was $141.7 billion, $100 million lower than the 2016 Budget.
- Program spending expenses accounted for $130.0 billion.
- Interest on debt expense accounted for $11.7 billion – $0.7 billion below the plan of $12.4 billion.
- This drop was due mainly to lower-than-forecast interest rates, and Ontario's cost-effective borrowing and debt management.
- Going forward, Ontario program expenses are projected to grow from $130.0 billion in 2016–17 to $144.2 billion in 2019–20.
- This represents an average annual growth rate of 3.5 per cent.
- Interest on debt expenses is projected to grow from $11.7 billion in 2016–17 to $13.3 billion in 2019–20.
- This represents an average annual growth rate of 4.2 per cent.

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- Total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20.
- This represents a manageable average annual growth rate of 3.6 per cent.
- These increases align with the government's plans for modernizing the public services people rely on every day.
- They are also fiscally sustainable.
- In short, the Ontario government has been managing its program expenses as well as its interest-on-debt expenses.

Balancing Revenues and Expenses:

- To bring the revenues and expenses together…
- Revenue is forecast to increase from $140.7 billion in 2016–17 to $158.2 billion in 2019–20.
- Total expenses are projected to increase from $141.7 billion to $157.4 billion over the same period.
- Based on these estimates, the Ontario government will effectively balance the budget over the next four years.

The Reserve:

- I will now take a moment to address the Province's financial reserve and contingency funds.
- As required under the *Fiscal Transparency and Accountability Act*, Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in revenue and expenses.
- The current fiscal outlook includes a reserve of $0.5 billion in 2017–18, $0.5 billion in 2018–19 and $0.8 billion in 2019–20.
- The current outlook also maintains contingency funds to help mitigate expense risks that may otherwise negatively impact Ontario's fiscal performance — particularly in cases where health and safety may be compromised, services to the most vulnerable are jeopardized, or natural disasters occur.

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Conclusion:

- Credit ratings provide an assessment of a government's credit-worthiness.
- They are a reflection largely based on its capacity to generate revenue to service its debt.
- They consider factors such as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks.
- As you know, a credit rating affects the cost of future government borrowing with a lower rating, indicating that an agency believes there is a relatively higher risk that a government will default on its debt.
- Accordingly, investors will lend to the government only in return for a greater risk premium, in the form of higher interest rates.
- A rating downgrade could also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.
- Therefore, it is critical that Ontario maintain its credit rating in good standing to manage its debt and preserve its fiscal health.
- Ontario's plan to keep its credit rating in good standing involves the following strategies:
    - Optimizing assets and revenues without causing undue tax burdens on Ontarians.
    - Prudently managing expenses without diminishing the quality of Ontario's services and programs.
    - Balancing revenues and expenses against each other to manage the debt, and
    - Preserving a reserve fund to mitigate unforeseen financial risks.

- Seen as a whole, these strategies will ensure confidence in Ontario's credit-worthiness through its ability to effectively manage its debt obligations.

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- Protecting the financing of Ontario's public services will continue to be one of my ministry's highest priorities.
- Thank you.

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SCOPA_MOF_long form QA_Debt_v11.pdf

LONG-FORM MEMBER QUESTION: DEBT MANAGEMENT

DEPUTY MINISTER SCOTT THOMPSON

Question

- What is Ontario's debt management plan?

Answer

- TBD: Revisions based on updates related to Q3 Finances, once available.
- The Ministry of Finance has a track record of responsible fiscal management and remains committed to executing the government's goal of reducing the provincial debt burden.
- The government's plan to manage the debt focuses on three key areas:
    - Decreasing the net debt-to-GDP ratio.
    - Decreasing the interest on debt-to-revenue ratio.
    - Utilizing term extensions.
- I would like to provide an update of progress on this goal.

Net Debt-to GDP Ratio:

- A key indicator of the government's ability to manage its debt is the level of debt relative to the size of the economy, known as the net debt-to-GDP ratio.
- The ratio of net government debt to the market value of goods and services produced by an economy — known as gross domestic product or GDP — measures the relationship between a government's debt obligations and its capacity to raise the funds needed to meet them.
- It is an indicator of the relative burden of government debt on the economy.

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- If the amount of debt that must be repaid relative to the value of the GDP is rising — in other words, if the ratio is rising — it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

- Before considering Ontario's net debt-to-GDP ratio, let me first discuss the components.
- First, I want to address Ontario's net debt situation.
- Ontario's net debt increased from $295.4 billion as of March 31, 2016 to $301.6 billion as of March 31, 2017.
- It is projected to increase to $311.7 billion by March 31, 2018 and to $323 billion by March 31, 2019.
- About 62 per cent of the increase in net debt from 2008–09 to 2016–17 was due to the deficit.
- The remaining net debt increase was a result of investments in capital assets.
- Balanced budgets from 2017–18 onwards will ensure that increases in net debt will be limited to net investments in capital assets such as roads, bridges, hospitals and schools.
- In other words, the net debt is increasing at a manageable rate, and a smaller portion of it is collected from the deficit.

- Next, let me briefly address the GDP.
- The government's investments in capital assets increased economic growth and helped support Ontario's GDP to advance more quickly than debt, helping the government achieve its net debt-to-GDP targets.
- Over the past three years, Ontario's economy has grown faster than Canada's and that of all other G7 countries.
- In fact, Ontario's real GDP is now 21.3 per cent above its recessionary low.
- Over the 2017–20 period, the Ministry of Finance is forecasting average annual growth of 2.2 per cent in Ontario's real GDP.

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- Government investments have helped stimulate the Ontario economy to rise from the depths of the recession, and it is now enjoying a period of economic strength and growth.

- I briefly addressed the net debt and GDP situations separately; now let me bring them together.
- The 2017 Fall Economic Statement reported that Ontario's net debt-to-GDP ratio is lower than previously forecast.
- The net debt-to-GDP ratio peaked at 39.3 per cent in 2014–15 and has been declining ever since, as a result of Ontario's economic growth and the government's progress towards a balanced budget in 2017–18.
- It is now projected to be 37.3 per cent at the end of fiscal 2017–18, 0.2 per cent lower than was forecast in the 2017 Budget.
- This ratio is projected to continue to decline to 37.1 per cent in 2018–19.
- In the 2017 Budget, the government set an interim net debt-to-GDP ratio target of 35 per cent by 2023–24, and re-stated its commitment to reduce the net debt-to-GDP ratio to its pre-recession level of 27 per cent by 2029–30.
- A declining net debt-to-GDP ratio, together with low interest on debt costs as a percentage of revenues, positions the province for long-term sustainability.
- It also allows for a greater proportion of government spending to be invested in programs and services.

- The reduction of debt is complemented by Ontario's investments in infrastructure, which are supporting economic growth and job creation.
- In fact, Ontario is making the biggest investment in public infrastructure in its history.
- The government's long-term infrastructure plan to invest about $190 million over 13 years, starting in 2014–15, will contribute to the growth of the economy.

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- These investments will not only create jobs, support business innovation and draw investors from abroad — they will also contribute to the growth of the provincial economy at a faster rate than the change in its net debt.
- The positive impact of these capital investments on the province's economy was confirmed by the Centre for Spatial Economics.
- It recently reported that, over the long term, GDP in Ontario increases by up to $6 for every dollar of public infrastructure spending.
- The government's economic strategy was further supported in a report by the International Monetary Fund in June 2016, which recommended that Canadian "fiscal policy should be pro-growth."
- Christine Lagarde, the International Monetary Fund's Managing Director, expressed her support for the government's growth strategy and agreed that investment in infrastructure should be an essential element.
- In summary, Ontario's net debt-to-GDP ratio will gradually diminish due to the GDP increasing at a faster rate than net debt.
- This will allow the government to continue to move towards its 27 per cent net debt-to-GDP target.

Interest on Debt-to-Revenue Ratio:

- Another major thrust of Ontario's plan to manage its debt centres on the interest on debt-to-revenue ratio.
- This is another key indicator of the government's ability to meet its financial obligations.
- Through prudent and cost-effective debt management, the government has consistently kept interest on debt costs below budget projections.
- The 2016–17 Public Accounts show that Ontario's deficit for the last fiscal year was $991 million — $3.3 billion lower than projected in the 2016 Budget and half a billion lower than the interim deficit projection in the 2017 Budget.
- This smaller-than-projected deficit is due to stronger revenues, and reflects positively on the debt-to-revenue ratio.

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- Ontario's interest on debt for 2017–18 is forecast to be $12.2 billion.
- The interest on debt-to-revenue ratio is forecast to be 8.2 per cent in 2017–18, 8.3 per cent in 2018–19 and 8.4 per cent in 2019–20.
- The savings on interest on debt have improved a key measure of the affordability of debt.
- For example, the 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- By the 2017 Budget, the amount needed for interest payments had dropped significantly.
- The current forecast is 3.1 cents lower — 8.2 cents of interest costs for every dollar of revenue.
- This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through Ontario's outlook period to 2019–20.

Term Extension on Debt:

- Finally, record-low interest rates have enabled the government to keep its annual interest expense steady.
- However, the global decline in interest rates over the last 25 years could not continue indefinitely.
- The Bank of Canada has increased interest rates — twice last year and already once this year.
- Ontario has taken necessary precautions to protect the financing of the province's public services, now that interest rates are widely understood to be on a net rising trajectory.
- To protect the province from these increases, the government has continued to extend the term of its debt.
- Term extension has allowed the government to lock in low interest rates for a longer period, which reduces refinancing risks.
- Extending the term also helps offset the impact of expected higher interest rates on interest on debt costs.

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- Going back to the beginning of fiscal 2010–11, Ontario has issued $68.6 billion in bonds longer than 30 years to lock in low rates.
- As a result, the weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17.
- For 2017–18, it stood at 12.8 years as of October 31, 2017.
- If or when interest rates continue to rise, the government will assess whether it will remain cost-effective over the long term to continue to extend the term of its debt.

Conclusion:

- As I said at the outset, the Ontario government has a track record of responsible fiscal management and remains committed to executing its goal of reducing the provincial debt burden.
- To conclude, the government's plan to manage the debt focuses on three key areas:
    - One, decreasing the net debt-to-GDP ratio.
    - Two, decreasing the interest on debt-to-revenue ratio.
    - And three, extending the term on its debt.
- As I have stated, the government has decreased the net debt-to-GDP ratio.
- In the 2017 Budget and the 2017 Fall Economic Statement, Ontario stated that the government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected for 2029-2030, together with an interim target of 35 per cent by 2023-2024.
- I also explained how the government has decreased the interest on debt-to-revenue ratio.
- The 2010 Budget forecast that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest.
- However, by the 2017 Budget, the amount needed for interest payments had dropped.

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- The current forecast is 3.1 cents lower — at 8.2 cents of interest costs for every dollar of revenue.
- Finally, I explained how the government has taken advantage of low-interest rates and extended the term on its debt.
- The weighted-average term to maturity of long-term provincial debt issued has been extended significantly, from 8.6 years in 2008–09 to 13.9 years in 2016–17, and 12.8 years for 2017–18 as of October 31, 2017.
- In short, Ontario's economy remains strong.
- Protecting the financing of the province's public services will continue to be one of the government's highest priorities.
- Thank you.

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SCOPA_MOF_long form QA_Fair Hydro_v11.pdf

LONG-FORM MEMBER QUESTION: FAIR HYDRO PLAN

DEPUTY MINISTER SCOTT THOMPSON

Question:

- What is the financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budget?

Answer:

- As Deputy Minister of the Ministry of Finance, I will speak specifically to the financial implications of the Fair Hydro Plan on the Province's budget and financial statements.

Ontario's Fair Hydro Plan

- To address issues related to rising electricity costs, especially for families and small businesses, the government announced Ontario's Fair Hydro Plan on March 2, 2017.
- As part of the plan, electricity bills were reduced by 25 per cent on average, or about $41 per month, for all Ontario residents as of July 1, 2017.
- The plan included several important measures.
- First, let me discuss the refinancing of the Global Adjustment.
- The Global Adjustment is the cost of building new electricity infrastructure in the province and maintaining existing resources.
- The majority of the province's electricity generators currently have 20-year contracts.
- Many of these generators will be able to operate past their contract term.

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- In other words, they would still generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers.
- The Government of Ontario believed that present-day consumers should not be burdened with paying for a disproportionate share of investments that provide benefits for decades to come.
- To relieve the current burden on ratepayers, and share costs more fairly, a portion of the Global Adjustment is being refinanced over a longer period.
- This is providing significant and immediate rate relief to ratepayers by spreading the cost of electricity investments over time, to better reflect the expected lifecycle of the infrastructure that has been built.
- According to estimates provided when the Fair Hydro Plan was announced, the immediate reduction in the Global Adjustment would be about $2.5 billion per year, on average, over the first 10 years.

- Second, the plan included an expansion of the Industrial Conservation Initiative or ICI.
- The ICI allows participating customers to manage their Global Adjustment costs by reducing demand during peak periods.
- Customers who participate in the ICI, referred to as Class A, pay Global Adjustment based on their percentage contribution to the top five peak Ontario demand hours over a 12-month base period.
- Ontario expanded eligibility for the ICI program by reducing the threshold from 1 MW to 500 kW.
- This measure allows small manufacturers and industrial consumers the opportunity to participate in the ICI and save on their electricity costs.

- A third component of the plan is Ontario's rebate for electricity consumers.

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- The government provided an eight per cent Ontario Rebate for Electricity Consumers on electricity bills, equivalent to the amount of the provincial portion of the Harmonized Sales Tax.
- This change was effective January 1, 2017.

- A fourth and important part of the plan allows future increases to hydro bills to be set by regulation.
- This enables the government to hold increases, for four years, to the rate of inflation.
- While rates will rise gradually over time, the government remains committed to avoiding sharp increases.

Assisting the Most Vulnerable Electricity Consumers

- The government has introduced other measures to help the most vulnerable electricity consumers.
- It did this by introducing legislation to enhance some existing programs or introduce new initiatives.
- In particular it enhanced the Ontario Electricity Support Program.
- The Ontario Electricity Support Program is an income-tested, application-based program that lowers electricity costs for the most vulnerable consumers.
- In practice, it provides them with a rebate directly on their bills.
- Effective May 1, 2017, Ontario increased the program by 50 per cent, meaning that single, low-income consumers would get an increase in their rebates ranging from $180 to $276 per year.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $140 million in 2017–18.
- This amount will be covered by provincial revenues.

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- As well, as part of the plan, Ontario has enhanced the Rural or Remote Rate Protection Program, or RRRP.
- The RRRP provides a rate subsidy to rural and remote residential customers who face higher distribution costs.
- As part of the Ontario Fair Hydro Plan, the Province expanded the program to provide distribution delivery charge relief to about 800,000 customers.
- According to the 2017 Provincial Expenditure Estimates, the program is anticipated to cost $344 million in 2017–18, which will also be covered by provincial revenues.
- Ontario is also helping customers through local distribution companies.

- In October 2017, the Province launched the $100 million Affordability Fund.
- The Affordability Fund provides local distribution companies with an additional tool to help customers in need.
- Local distribution companies can use the fund to provide support to qualifying customers for energy efficiency improvements, to help them reduce their future electricity bills.
- The Affordability Fund is paid through provincial revenues.

- Finally, Indigenous communities in Ontario are also receiving assistance through the First Nations On-Reserve Delivery Credit.
- In 2016, the Ontario Energy Board engaged with First Nations, including remote communities, the distributors serving them and consumer groups.
- Following the engagement process, the board recommended to the Government of Ontario the elimination of the delivery charge for all on-reserve First Nations residential customers.
- The board also recommended removing the monthly service charge for customers of licensed distributors that charge a bundled rate.

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- The board estimates this would provide residential customers an average monthly benefit of $85.
- According to the 2017 Provincial Expenditure Estimates, the credit is anticipated to cost $15 million in 2017–18, which will be funded by provincial revenues.

- In summary, these new measures will cost the government up to $2.5 billion over the next three years.
- The cost is about $500 million in 2017–18, based on a part-year implementation, according to the 2017 Provincial Expenditure Estimates.

Conclusion:

- Taken together, these changes are delivering the single-largest reduction to electricity rates in Ontario's history.
- For all residential consumers in the province, electricity bills have been reduced by 25 per cent on average, or about $41 per month, as of July 1, 2017.
- People with low incomes and those living in eligible rural or remote communities are receiving even greater reductions, as much as 40 to 50 per cent.
- Approximately 500,000 small businesses and farms are also benefitting from the changes.
- On-reserve First Nation residential customers of licensed distributors are getting a 100 per cent credit on the delivery line of their bills.
- Although hydro rate relief costs were additions to the fiscal framework, the government continues to project a balanced budget for 2017-18, and will provide a full update on its fiscal plan in the spring budget.

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SCOPA Presentation Tips.pdf

TIPS FOR PRESENTING AT SCOPA

Tips for Addressing Committee Members:

Note: Tips are applicable for addressing both Committee Members and media.

- When speaking be mindful of what you say – the proceedings are recorded and there's no such thing as "off the record."

- Adhere to the scripted remarks and prepared Q&As. Do not embellish and ***when in doubt, leave it out.***

    - Be sure you understand the question being asked (it's ok to ask for clarification) and Do NOT answer something you're not 100% sure of.

- If you do not have the response, you may advise Committee Members that the matter needs to be redirected to another ministry, or that you will get the requested information by saying, "I'll look into what is possible to provide."

- Be mindful of only addressing questions/issues that relate directly to the TBS.

- It is acceptable to decline to answer an unrelated question by noting that you are not clear of its relevance to TBS, and that you are prepared to address matters related to the ministry.

- If caught off guard, breathe, listen, work to understand the question, or ask for clarification.

    - Ask the questioner 'Excuse me' or 'I beg your pardon?'
    - Ask the questioner 'Can you kindly help me understand the context of the question/or what you just said?'

- If possible, use a bridging statement to get to your key message/prepared response. (See Appendix A).

- Do not offer personal opinions. Stick to the facts:

    - Leave off qualifiers like "I think" "I feel," and "I believe" which represents an opinion. To sound confident and assured, be mindful not to use qualifiers.
    - Do not use 'I assure you."

- Offer examples of success whenever possible.

Body Language, Tone:

- Be aware of how you come across. There is no benefit to being seen as defensive, argumentative, or unresponsive.

- Project an image of openness, honesty, and empathy.

- Remember to breathe deeply and speak slowly.

    - Controlling your breathing helps deal with the stress.
    - Take several deep breaths as you sit down and get organized.
    - Ahead of appearance take a few minutes in a quiet spot to breathe slowly and deeply.
    - "Super Hero Pose" – stand with your legs shoulder width apart, hands on hips, shoulders back. Do this for two minutes. It helps mentally prepare you ahead of having to speak.

- Use your hands while talking to look natural and help release anxiety. (Note palms up is a subconscious message to those looking at you that you are open and have nothing to hide)

- Avoid body language leakage—those involuntary movements that indicate you're nervous or stressed - e.g. head nodding, swallowing, and pursing your lips.

- Do not touch your face with your hands.

- Avoid repeating negative words that members use in questions. Doing so indicates you accept the negative premise.

- If you feel overwhelmed while speaking in front of an audience, recalibrate by breathing and pausing.

What-Ifs:

1. What if you don't want to answer the question, but you have to say something?

    - Offer a credible reason why you are unwilling to answer the question and identify what you prefer to discuss.

2. What if you're asked for hard numbers, and you don't have the answer?

- Explain, “I want to be absolutely precise and specific, so I will need to get back to you with the exact number”

- Words like “precise,” “specific,” and “exact” convey that the question has been taken seriously.

3. What if you don’t know the answer, but a colleague who is with you may know it?

   - If you need help from the other ADMs, open your response with ‘In a moment I’m going to call on my colleague to get into more detail about this…’ This gives the other TBS representative time to know they’ll be called upon.

   - Briefly discuss a related subject, then pass the question.

4. What if you need to pause?

   - If you have said absolutely everything you need to say, then let there be a pause.

   - Remember it’s not up to you to keep the proceedings going. That’s the Chair’s job. They may intentionally leave dead air in the hopes that you’ll jump in to fill it by saying something you hadn’t intended to.

5. What if the answer is confidential?

   - Explain that confidentiality rules must be respected, so you cannot directly address the issue at hand. (e.g.: that matter is before the courts).

6. What if it’s a question about a rumour?

   - When asked to respond to a rumour, it is best to not respond at all. Instead, state that your focus is always on fact, not rumour.

7. What if the answer is HR related?

   - Say as little as possible. Commenting on someone’s employment record in a negative context can potentially put you in legal jeopardy.

8. What if you don’t like what you’re saying?

   - Don’t feel obligated to complete a sentence or thought. Simply begin the response again.

9. What if it’s a “yes or no” question?

- Unless the question relates to a sensitive issue, skip “yes” or “no” and go right to the message that would follow.

10. What if it's an "is it possible" question?

    - Avoid speculating and tell the committee – "I'm not able to comment on something that may or may not happen."

11. What if you're interrupted mid-answer?

    - The first time, let it go. The second time, ask the Chair to be allowed to finish your thought.

APPENDIX

A. Sample Bridging Statements

1. "We find the more important issue is…"
2. "I think it would be more accurate (or correct) to say…"
3. "Let me emphasize again…"
4. "What matters most in this situation is…"
5. "While _____ is important, it's also important to remember that…"
6. "It all boils down to this…"
7. "And that reminds me…"
8. "Before we leave this subject, I need to add…"

A.pdf

Attachment A. 2017 Annual Report Chapter 2_Public Accounts of the Province (0 Bytes) cannot be converted to PDF format.

B.pdf

Attachment B. 2017 Special Report on Fair Hydro Plan (0 Bytes) cannot be converted to PDF format.

AG 2017_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Chapter 2.pdf (721675 Bytes).

AG 2017_News Release_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_News Release_Chapter 2.pdf (136845 Bytes).

AG 2017_Summary_Chapter 2.stub.pdf

Security settings or invalid file format do not permit using AG 2017_Summary_Chapter 2.pdf (72105 Bytes).

AG 2017 Report on Fair Hydro Plan.stub.pdf

Security settings or invalid file format do not permit using AG 2017 Report on Fair Hydro Plan.pdf (1323405 Bytes).

Standing Committee on Public Accounts - Chapter 3(1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Feenstra, Mike (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Berry, James (ENERGY); Campbell, David (ENERGY); Nucciarone, Michael (ENERGY); Armstrong, Hillary (ENERGY); Baker, Carys (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter 3
Date:	February 20, 2018 3:39:00 PM
Attachments:	MIN-GEN from DM to Public Accounts Committee re Chapter 3 hearings.docx Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 20.docx Cpt 3.06.pdf

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Hi Mike,

The Ministry along with the IESO and OEB have been called to the Standing Committee on Public Accounts on March 7th to discuss the Auditor General's value for money audit of the IESO relating to Market Surveillance and Cybersecurity.

The Ministry is required to formally submit a status update table, attached, updating the progress to the recommendations the Auditor General's report. Also attached, as reference is a letter to the Clerk that will come from the Deputy, as well as the Auditor's VFM Audit of the IESO, Chapter 3.06.

In preparation for the appearance, the Ministry in collaboration with the OEB and IESO are developing appropriate key messages and Q&As. These items are still under development, however, we will share in advance of the appearance.

The Ministry is required to send a formal response back to the Clerk by end of day tomorrow, including the status table.

Let us know if you have any questions or comments on the materials.

Thanks,
Martin

MIN-GEN from DM to Public Accounts Committee .pdf

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Ontario

February 21, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto ON M7A 1A2

Dear Mr. Koch:

I am writing regarding the review of Independent Electricity System Operator – Market Oversight and Cybersecurity (Section 3.06 of Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, March 7, 2018 from 12:30 p.m. to 3:00 p.m.**:**

Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Energy Supply Policy Division

Independent Electricity System Operator (IESO)
- Peter Gregg, President and Chief Executive Officer
- Leonard Kula, Chief Operating Officer, Vice President, Planning, Acquisition and Operations
- Glenn McDonald, Director, Market Assessment and Compliance Division
- Sorana Ionescu, Vice President, Information and Technology Services (Acting)

As per the January 29, 2018, memo sent to you from the Ontario Energy Board (OEB), the following individuals from the OEB will also participate:
- Rosemarie Leclair, Chair and Chief Executive Officer
- Glen Leslie, Chair, Market Surveillance Panel
- Martine Band, Associate General Counsel, Legal Services
- Mary Anne Aldred, Chief Operating Officer and General Counsel

In addition, please find enclosed a copy of the summary status table in response to Chapter 3 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Martin Schlaepfer, Director of Operations at 416-326-7688 or Martin.Schlaepfer@ontario.ca if you require further information.

Sincerely,

Serge Imbrogno
Deputy Minister

c: Ernie Hardeman, MPP, Chair of Committee
Bonnie Lysyk, Auditor General

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Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**<u>2017 Annual Report – Response:</u>** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding.	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

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Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

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Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	participant. Program costs have fallen from $61 million in 2014 to $22 million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http://	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **Status Update:** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market*	**2017 Annual Report – Response:** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	participants/ engagement-initiatives/overview/ engagement-principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	

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Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	legislative authority to assist the Oversight Division in performing its mandated duties. **Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
change the Oversight Division's reporting structure.	**Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization. The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and the project is intended to be implemented by the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.	technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation.	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
security risk that external vendors pose to the IESO.	**Status Update:** On an ongoing basis, the Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018. As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

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Standing Committee on Public Accounts - Chapter 3.pdf

From:	Nucciarone, Michael (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter 3
Date:	February 20, 2018 3:36:35 PM
Attachments:	MIN-GEN from DM to Public Accounts Committee re Chapter 3 hearings.docx Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb 20.docx Cpt 3.06.pdf

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Hi Martin,

To flip to MO.

Hi Mike,

The Ministry along with the IESO and OEB have been called to the Standing Committee on Public Accounts on March 7th to discuss the Auditor General's value for money audit of the IESO relating to Market Surveillance and Cybersecurity.

The Ministry is required to formally submit a status update table, attached, updating the progress to the recommendations the Auditor General's report. Also attached, as reference is a letter to the Clerk that will come from the Deputy, as well as the Auditor's VFM Audit of the IESO, Chapter 3.06.

In preparation for the appearance, the Ministry in collaboration with the OEB and IESO are developing appropriate key messages and Q&As. These items are still under development, however, I will share in advance of the appearance.

The Ministry is required to send a formal response back to the Clerk by end of day tomorrow. Sharing these materials if you had any comments.

Happy to discuss if you have any questions or concerns.

Thanks,
Martin

MIN-GEN from DM to Public Accounts Committee _1.pdf

Ministry of Energy

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Ontario

February 21, 2018

Katch Koch
Clerk of the Committee
Procedural Services Branch
Legislative Assembly of Ontario
99 Wellesley Street West, Room 1405
Toronto ON M7A 1A2

Dear Mr. Koch:

I am writing regarding the review of Independent Electricity System Operator – Market Oversight and Cybersecurity (Section 3.06 of Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario) by the Standing Committee on Public Accounts.

The following individuals will be accompanying me to the hearings scheduled on Wednesday, March 7, 2018 from 12:30 p.m. to 3:00 p.m.**:**

Ministry of Energy
- Steen Hume, Assistant Deputy Minister, Energy Supply Policy Division

Independent Electricity System Operator (IESO)
- Peter Gregg, President and Chief Executive Officer
- Leonard Kula, Chief Operating Officer, Vice President, Planning, Acquisition and Operations
- Glenn McDonald, Director, Market Assessment and Compliance Division
- Sorana Ionescu, Vice President, Information and Technology Services (Acting)

As per the January 29, 2018, memo sent to you from the Ontario Energy Board (OEB), the following individuals from the OEB will also participate:
- Rosemarie Leclair, Chair and Chief Executive Officer
- Glen Leslie, Chair, Market Surveillance Panel
- Martine Band, Associate General Counsel, Legal Services
- Mary Anne Aldred, Chief Operating Officer and General Counsel

In addition, please find enclosed a copy of the summary status table in response to Chapter 3 – 2017 Annual Report of the Office of the Auditor General.

Please feel free to contact me or Martin Schlaepfer, Director of Operations at 416-326-7688 or Martin.Schlaepfer@ontario.ca if you require further information.

Sincerely,

Serge Imbrogno
Deputy Minister

c: Ernie Hardeman, MPP, Chair of Committee
Bonnie Lysyk, Auditor General

Status Table_Ch 3 of AG AR_SCOPA_Draft - Feb _2.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**<u>2017 Annual Report – Response:</u>** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding.	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	participant. Program costs have fallen from $61 million in 2014 to $22 million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http://	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **Status Update:** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market*	**2017 Annual Report – Response:** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Surveillance Panel or the IESO Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	participants/ engagement-initiatives/overview/ engagement-principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #9 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO:* • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
that the Ministry of Energy give the Oversight Division explicit legislative authority under the Electricity Act to compel information and evidence in the course of its investigations.	legislative authority to assist the Oversight Division in performing its mandated duties. **Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO.	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
change the Oversight Division's reporting structure.	**Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization. The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and the project is intended to be implemented by the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the IESO procure technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time.	technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation.	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
security risk that external vendors pose to the IESO.	**Status Update:** On an ongoing basis, the Independent Electricity System Operator's (IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018. As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

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Standing Committee on Public Accounts - Chapter....pdf

From:	Nucciarone, Michael (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY); Armstrong, Hillary (ENERGY)
Subject:	Standing Committee on Public Accounts - Chapter Two
Date:	January 12, 2018 3:49:56 PM
Attachments:	SCOPA_Swim Lanes_DRAFT_20180112.xlsx SCOPA_Meeting Agenda_DRAFT_20180112 v2.docx SCOPA Issues Overview Template.docx

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Hi Deputy,

This morning Comms met with both TBS and MOF Comms to discuss an approach to the appearance before the Committee on Chapter 2 of the AG's Annual Report.

I wanted to flag for you that at the meeting it was mentioned that there would be a joint Deputy's meeting next Friday January 19, not sure if the meeting invite has made it into your calendar yet.
At the meeting, the Ministry has been asked to come prepared with anticipated key issues and have attached proposed documents that would be populated to help guide the discussion as well as a draft agenda.

It is anticipated that a joint MO briefing will take place the following week, however, has not yet been finalized.

I will action out to staff in preparation for the meeting on the 19th.

Thanks,
Michael

SCOPA_Swim Lanes_DRAFT_20180112.pdf

STANDING COMMITTEE ON PUBLIC ACCOUNTS

CONSIDERATION OF CHAPTER 2, PUBLIC ACCOUNTS OF THE PROVINCE
FEBRUARY 2018

Topic	Cabinet Office	Treasury Board Secretariat			Ministry of Finance		Ministry of Energy					
	Secretary of Cabinet	Deputy Minister	Associate Deputy Minister, OTB	ADM, OPCD	Deputy Minister	CEO, OFA	Deputy Minister	ADM	Pres. & CEO, OPG	SVP & CFO, OPG	Pres. & CEO, IESO	VP & CFO, IESO
	Steve Orsini	Helen Angus	Karen Hughes	Cindy Veinot	Scott Thomson	Gadi Mayman	Serge Imbrogno	Steen Hume	Jeffrey Lyash	Ken Hartwick	Peter Gregg	Kimberley Marshall
Pension Asset Accounting		**PENSION ACCOUNTING LEAD**										
Rec # 1 - Pension Asset Accounting Advisory Panel Compensation		Overall - Pension Asset Accounting	Details - Pension Asset Accounting	Details - Pension Asset Accounting Advisory Panel Compensation								
IESO Accounting							**IESO LEAD**					
Rec # 2 IESO Market Accounts Rec #3 IESO Rate-Regulated Accounting AG Audit of 2017 Statements OPG/IESO 'Inappropriate' Expenses OPG Executive Compensation		Relationship with AG - AG Audit of 2017 Statements		OPCD decision to accept IESO market accounts OPCD decision to accept IESO rate-regulated accounting			OPG/IESO 'Inappropriate' Expenses OPG Executive Compensation		Further details - 'Inappropriate' Expenses Further details - OPG Executive Compensation		IESO Market Accounts IESO Rate-Regulated Accounting	IESO Market Accounts IESO Rate-Regulated Acocunting AG Audit of 2017 Statements
Ontario Fair Hydro Plan							**OFHP LEAD**					
Rec #4 OFHP Accounting Rec #8 'Legislated Accounting' Rec #9 Arm's Length Trusts Records Re-design of hydro bills		Ministry FOI/OPQ	Decision to accept OFHP accounting OFHP - 'legislated' accounting		Financing Structure	Financing Structure	OFHP Financing/Accounting Overview Arm's Length Trusts Records Re-design of hydro bills		OPG Trust			
Pre-Election Report					**PRE-ELECTION REPORT LEAD**							
Rec #5 Pre-Election Report on Ontario's Finances			Relationship with the AG to prepare Pre-Election Report		Pre-Election Report on Ontario's Finances							
Province's Fiscal Situation					**FISCAL POSITION LEAD**							
Rec #6 Province's Debt Burden Financial Accountability Officer Reports Credit Ratings					Province's Debt Burden Financial Accountability Officer Reports Credit Ratings	Province's Debt Burden; Repayment plan Financial Accountability Officer Reports Credit Ratings						
Preparation of Public Accounts		**PUBLIC ACCOUNTS LEAD**										
#7 External Advisors Rec #10 Timeline of Finalization of Financial Statements Audit Opinion		External Advisors Timeline of Finalization of Financial Statements	Timeline of finanlization of financial statements Audit Opinions	Audit Opinions								
Other Topics												

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SCOPA_Meeting Agenda_DRAFT_20180112 v2.pdf

Communications Branch
Your Strategic Partner

AGENDA

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

PRE-BRIEFING DISCUSSION

Date: Friday January 19, 2018
Time: 4:00pm – 5:00pm
Location: TBS DMO Board Room 5th Floor Whitney Block
Attendees: TBS, MOF MOE

Topic	Lead	Time
Logistics Overview • Schedule and format • Attendees • Tips and Guidelines	TBS Communications	15 minutes
Strategic Approach • Environmental Scan • Key Issues • Swim lanes and scope	TBS Communications	20 minutes
Briefing Binder Contents • DM Angus opening remarks • Questions and Answers: Overall and Long-form Answers • Supporting materials	TBS Communications	10 minutes
Questions	All	15 minutes

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SCOPA Issues Overview Template.pdf

Ministry Name/Logo Here

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Consideration of Chapter 2, Public Accounts of the Province
February 2018

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- House Book Notes 5

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Environmental Scan

Brief overview of the overall environment and considerations for the ministry going into SCOPA.

Media Scan

Overview of the key themes and issues that have been raised in the media.

Hansard Scan

Overview of key themes raised in the House or during recent committee appearances.

FOIs/OPQs

Brief overview of any FOI requests or OPQs that are currently outstanding and may be relevant to the issues raised in SCOPA.

Overview	Key Issues	Key Dates	Next Steps
E.g. – OPQ #700 MPP Vic Fedeli Would the President of the Treasury Board state whether the government is in possession of an opinion from KPMG or E&Y on how the Fair Hydro Plan transaction should be recorded in the government's Consolidated Financial Statements, and further state precisely where they disagree with the Auditor General	Ontario Fair Hydro Plan Accounting	CO Due Date: April 2, 2018	In progress – **Products:** Response to OPQ. **Notes:** Draft will be sent first week of January 2018 to OPCD to draft response. OPQ will be formally filed on February 20, 2018 TBS is the only ministry to have received this OPQ. **Next Steps:** Develop and approve response

Other Considerations

Include any other considerations that should be on the radar going into SCOPA.

Key Issues

Issue/Consideration	Strategy	Key Messages	Evidence

Brief description of the issue/consideration	Brief overview of the overall strategy when responding to the issue	Outline key messages to respond to the issue	Examples of evidence that support the response (for example, reports from external consultants, government documents such as the Budget, etc.)
E.g. **Pension Asset Accounting:** Auditor General's qualified opinion	Confirm that the province will continue to follow PSAS, as always, and seek appropriate expert guidance where PSAS is silent. Highlight supporting perspectives from external consultants.	The government continues to move forward and present the province's finances fairly and accurately and in accordance with Canadian Public Sector Accounting Standards (PSAS). The government respectfully disagrees with the Auditor General's interpretation of the accounting standards, as PSAS neither requires unilateral control to record an asset, nor does it include a requirement to obtain a letter from the co-sponsor of the plan agreeing to reduce further contributions within 12 months. The government is open to continue to discuss the matter in hopes of resolving this matter.	• Pension Asset Expert Advisory Panel • Opinion from Deloitte LLP • Analysis Completed by EY

Questions & Answers

Top Questions

1. **List of anticipated top questions and answers**

   Approximately 10 to 15 questions and answers

2. E.g. – **How do you respond to the Auditor General's recommendation that the government remove the Independent Electricity System Operator's (IESO) market accounts from the province's consolidated financial statements?**

   In 2016, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in its financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end. This change was supported by the IESO's audit committee, its independent external auditor, and by the Office of the Provincial Controller. This change also has no impact to the province's annual deficit, net debt or accumulated deficit.

   The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion.

   This accounting is consistent with the presentation used previously by the Ontario Power Authority (which was merged with the IESO on January 1, 2015) in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

Long-Form Answers

1. **List three long-form questions and answers**

   Answers are recommended to be approximately 2,000 words in length. Suggestion to list questions and brief outline of answer/key messages in the meantime while full answers are being finalized.

Ministry/Agency Representatives

List the full names, positions, and organizations of who will be attending SCOPA from the ministry/agency.

Organization	Position	Name
E.g. Treasury Board Secretariat	Deputy Minister	Helen Angus
E.g. Treasury Board Secretariat	Associate Deputy Minister,	Karen Hughes

	Office of the Treasury Board	

Supporting Materials

List and append any materials that will help with SCOPA preparations, such as backgrounders, technical briefing decks, House book notes, etc.

Backgrounders

- E.g. Auditor General 2017 Annual Report – Public Accounts – Management Response December 2017

Technical Briefings/QAs

- E.g. Public Accounts – Technical Briefing Deck September 2017

House Book Notes

- E.g. Pension Asset Accounting

Standing Committee on Public Accounts - Review ....pdf

From:	Nucciarone, Michael (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Subject:	Standing Committee on Public Accounts - Review of the IESO Market Oversight and Cybersecurity
Date:	February 21, 2018 5:13:15 PM
Attachments:	Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 20 .pdf

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Hi Martin,

I have to run for the night, but am passing along the final status update table to accompany the signed letter to the Clerk. When the Deputy signs, are you able to send along the letter and the attached to the Clerk?

The signed letter is on Francesca's desk.

Thanks, have a great night.
Mike

Status Table_Ch 3 of AG AR_SCOPA_Final - Feb 2_8.pdf

Summary Status Table in Response to the Report of the Auditor General of Ontario

Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #1 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel to improve market rules are addressed, we recommend that the Independent Electricity System Operator (IESO):* • *Implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations in an effective and timely way; and* • *Where the OEB Panel submits a report to the Independent Electricity System Operator that contains recommendations relating to the misuse, abuse or possible abuse of market power, the IESO should use its authority to amend the market rule immediately and submit it to the Ontario Energy Board for its review.*	**2017 Annual Report – Response:** The IESO supports the OEB Panel's work and acknowledges the recommendation made by the Auditor General. The IESO carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the Ontario Energy Board. The IESO has acted on a number of the recommendations made by the OEB Panel in the past and has made a number of market rule amendments as a result. The IESO will further continue to analyze and assess OEB Panel recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Where the OEB Panel submits a report to the IESO that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board. **Status Update:** The Independent Electricity System Operator (IESO) considers every OEB Panel recommendation and the Ontario Energy Board (OEB) Market Surveillance Panel's (MSP) underpinning analysis. The IESO has acted on a number of the recommendations made by the OEB's MSP in the past and has made a number of market rule amendments as a result.	The Independent Electricity System Operator (IESO) will continue to analyze and assess the Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) recommendations and consider possible amendments to market rules to address those recommendations, while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	When the OEB's MSP issues recommendations, usually through its semi-annual monitoring reports, the IESO assesses those recommendations, recognizing the need to ensure the reliability of the electricity network, to consider the impact upon market design, including potential unintended adverse effects, and to assess the ability of the IESO and market participants to implement the change. Should the OEB's MSP submit a report that contains recommendations related to market power, the IESO will take the action required of it under the Electricity Act, 1998, including amending the market rules where so ordered by the Board.	
AG Recommendation #2 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ontario Energy Board (OEB) use its legislative authority to revoke and refer a market rule amendment back to the Independent Electricity System Operator (IESO) for further consideration when the OEB's review determines that an amendment to the market rule is not in the best interest of ratepayers, having regard to*	**2017 Annual Report – Response:** The Ontario Energy Board (OEB) agrees with the importance that the Auditor General attaches to outcomes that are in the best interests of ratepayers. The OEB supports the recommendations of its OEB Panel, and will continue to use the tools at its disposal to signal that support while respecting its own mandate and processes and the authority and responsibilities of other agencies. Since 2011, the OEB has regularly corresponded with the IESO regarding the recommendations the OEB Panel makes in its reports. When the OEB renewed the IESO's licence in 2013, a new licence condition was included that requires the IESO to make annual filings to the OEB on the status of actions taken further to recommendations in OEB Panel reports, including the rationale for not taking action where a recommendation remains outstanding. The OEB will continue to work with the IESO to ensure that high-priority recommendations made by the OEB Panel are appropriately	As and when market rule amendments are made by the Independent Electricity System Operator (IESO) and filed with the Ontario Energy Board (OEB), the OEB will continue to exercise its existing authority in an independent manner and with due regard to the criteria for assessing market rule amendments as set out in the Electricity Act, 1998. Steps are being taken to further engage the IESO in respect of outstanding Market Surveillance Panel (MSP) recommendations on a timely basis. To the extent that the MSP questions the sufficiency or clarity of the IESO's response to an MSP recommendation, whether in correspondence with the OEB following release of an MSP report or in the IESO's annual filing, the MSP will follow up with the IESO rather than commenting on the response only in the next available semi-annual monitoring report as is currently the practice.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
the fact that it does not address the Market Surveillance Panel's recommendations. The OEB should continue to revoke and refer such a market rule amendment back to the IESO until it is satisfied that the market rule amendment is in the best interest of ratepayers.	addressed in a timely manner. **Status Update:** See Outstanding Undertakings for additional information	The OEB will undertake additional follow-up as appropriate in the event that substantial outstanding issues remain after the initial outreach by the MSP.
AG Recommendation #3 *To ensure that ratepayers' interests are protected and that recommendations made by the Ontario Energy Board Market Surveillance Panel (OEB Panel) to improve market rules are addressed, we recommend that the Ministry of Energy review the legislative power and authority of the Ontario Energy Board to conduct a review of a market rule on its own motion, and to consider expanding its authority under the Electricity Act, 1998, when misuse and abuse of a market rule is brought forward by the OEB Panel and is not effectively being addressed by the Independent Electricity System Operator (IESO).*	**2017 Annual Report – Response:** The Ministry of Energy supports the Ontario Energy Board (OEB) and the IESO in the important roles they play to ensure that Ontario's electricity market operates efficiently. The Ministry, in consultation with both the OEB and the IESO, will review the Electricity Act, 1998, regarding the market rule approval process. The Ministry will also review the authority of the OEB. **Status Update:** See Outstanding Undertakings for additional information	The Ministry of Energy is committed to strong electricity market oversight in Ontario and is working closely with the Independent Electricity System Operator (IESO) and the Ontario Energy Board (OEB) in reviewing the appropriate role and legislative authority of the OEB with regards to the review and amendment of market rules. This review is expected to be completed this year.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #4 *To ensure the transparency of government decisions, we recommend that the Ministry of Energy review the impact of the Industrial Conservation Initiative on low-energy consuming ratepayers and publicly report this information.*	**2017 Annual Report – Response:** The Ministry continues to monitor the impact of the Industrial Conservation Initiative (ICI) on the electricity system in reducing peak demand and the impact on all classes of electricity consumers. The recovery mechanism under ICI maintains the relationship between a consumer's electricity costs and their contribution to provincial peak demand. Lowered peak demand reduces the need for supply resources and ultimately the projection for electricity system cost. The Independent Electricity System Operator (IESO) estimates that ICI reduced peak demand by about 1,300 megawatts in 2016. ICI supports a fair cost allocation framework where consumers who are contributing the least to peak demand pay a smaller portion of these related long-run costs. It is also worth noting that the IESO publishes on its website the allocation of global- adjustment costs each month, as well as the consumption for each class of consumer. The Ministry would also like to clarify that the benefit for residential and small-business consumers will not be influenced by ICI expansion. The Ontario Fair Hydro Plan reduced electricity bills for residential consumers by an average of 25% and will hold any increases to the rate of inflation for four years. **Status Update:** See Outstanding Undertakings for additional information	The Industrial Conservation Initiative (ICI) program has been successful at reducing peak electricity demand, which benefits the system by reducing the need for peaking generation. This puts downward pressure on electricity system costs as we move forward, helping to ensure a more cost-effective system for all ratepayers. The Ministry of Energy continues to monitor and report on the impact of the ICI program on the electricity system, including reductions in peak demand and impacts on all classes of electricity consumers. The results of the ICI program can be seen in monthly Independent Electricity System Operator (IESO) reports and the quarterly Ontario Energy Report.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #5 *To protect ratepayers' interests and to improve the transparency of the decisions of the Independent Electricity System Operator (IESO), we recommend that the IESO provide a detailed analysis to the Ontario Energy Board Market Surveillance Panel (OEB Panel) to support its assertion that the Standby Cost Recovery Program is necessary to ensure a reliable supply of electricity for Ontarians.*	**2017 Annual Report – Response:** In 2018, the IESO will present to the OEB Panel a detailed analysis supporting the rationale for its previous assertions to the OEB Panel that a real-time generator commitment mechanism (currently the Real-Time Generator Cost Guarantee Program, referred to in this report as the Standby Cost Recovery Program) is necessary to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians. **Status Update:** The Independent Electricity System Operator (IESO) is scheduled to meet with the Ontario Energy Board's Market Surveillance Place (MSP) on April 5, 2018 to present a detailed analysis supporting the rationale for maintaining a real-time generator commitment mechanism.	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment. Until fundamental changes can be made, the current program is necessary to maintain the reliability of our electricity system and comply with mandatory continent-wide power system reliability standards.
AG Recommendation #6 *To ensure that ratepayers are not charged for unnecessary costs, we recommend that, if the Independent Electricity System Operator does not cancel the Standby Cost Recovery Program, it fully implement the Ontario Energy Board Market Surveillance Panel's (OEB Panel) recommendations*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and notes that the total costs of the Real-Time Generator Cost Guarantee Program (referred to in this report as the Standby Cost Recovery Program) have fallen from $61 million in 2014 to $23 million in 2016. In light of OEB Panel recommendations, the IESO implemented a new cost recovery framework for this Program on August 1, 2017. Under this new framework, the values for 14 of 15 eligible costs are now set and approved in advance of participating in the Program for each program participant. This change introduced transparency and removed the potential for overpayments and the	The Independent Electricity System Operator (IESO) is making fundamental changes to the electricity market, through the Market Renewal Program, that will include replacing the current real-time generator commitment mechanisms with a more efficient and transparent form of unit commitment.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
and not reimburse generators for operating and maintenance costs under the Program.	need for after-the-fact audits for these components. One cost component is still subject to audit, as it cannot be pre-approved, but this cost component was not identified as an issue in the Standby Cost Recovery Program audits. The IESO acknowledges issues with the current Standby Cost Recovery Program in our responses to previous OEB Panel reports and has committed to replace it. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ ieso/document-library/engage/me/benefits- case-assessment-market-renewal-project- clean-20170420.pdf?la=en and http://www. ieso.ca/sector-participants). The Enhanced Real-Time Unit Commitment initiative of Market Renewal will replace the current Standby Cost Recovery Program with a transparent and competitive mechanism that will ensure reliability through a more efficient commitment of resources near real time. **<u>Status Update:</u>** In light of Ontario Energy Board's Market Surveillance Panel (MSP) recommendations, the Independent Electricity System Operator (IESO) implemented a new cost recovery framework for this Program on August 1, 2017. Under this framework, eligible costs are set and approved in advance of participating in the Program for each program participant. Program costs have fallen from $61 million in 2014 to $22	

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	million in 2017.	
AG Recommendation #7 *To ensure that ratepayers are not charged for unnecessary costs associated with the Lost Profit Recovery Program, we recommend that the Independent Electricity System Operator (IESO) implement the recommendations of the Ontario Energy Board Market Surveillance Panel (OEB Panel) regarding this Program.*	**2017 Annual Report – Response:** The IESO acknowledges the recommendation made by the Auditor General and carefully considers every OEB Panel recommendation and the OEB Panel's underpinning analysis, and responds to each recommendation outlining the actions it will take in a letter directed to the Chair and CEO of the OEB. The IESO has acted on a number of the recommendations made by the OEB Panel related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. In light of the recommendations made by the OEB Panel over the years, the IESO will continue to consider the OEB Panel recommendations when assessing amendments to market rules while also balancing the need to ensure the reliability of the electricity network, to consider the impact upon market design including potential unintended adverse effects and to assess the ability of the IESO and market participants to implement the change. The IESO has initiated a $200-million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefits- case-assessment-market-renewal-project-clean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market	The Independent Electricity System Operator (IESO) has introduced fundamental changes through the Market Renewal Program that would eliminate the need for CMSC through the Single Schedule Market (SSM). The IESO has initiated a $200 million comprehensive program to fundamentally overhaul Ontario's electricity market. Market Renewal is estimated to result in up to $5.2 billion in savings, the majority of which is estimated to be realized by ratepayers (see "The Future of Ontario's Electricity Market, A Benefits Case Assessment of the Market Renewal Project," http://www.ieso.ca/-/media/files/ieso/ document-library/engage/me/benefitscase-assessment-market-renewal-projectclean-20170420.pdf?la=en and http:// www.ieso.ca/sector-participants). The Single Schedule Market (SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(SSM) initiative of Market Renewal will eliminate the Lost Profit Recovery Program. **<u>Status Update:</u>** The Independent Electricity System Operator (IESO) has acted on a number of the recommendations made by the Ontario Energy Board's Market Surveillance Panel (MSP) related to Congestion Management Settlement Credits (referred to in this report as the Lost Profit Recovery Program) and has implemented more than a dozen market rule amendments regarding the Program. A December 2016 MSP report noted: "many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."	
AG Recommendation #8 *To ensure that the Market Renewal Initiative (Initiative) considers and protects all ratepayers' interests, we recommend that the Independent Electricity System Operator (IESO):* • *immediately prohibit representatives from companies that have been found by the Ontario Energy Board Market Surveillance Panel or the IESO*	**<u>2017 Annual Report – Response:</u>** The IESO acknowledges the recommendations of the Auditor General and will continue to evaluate the membership of the working groups used for Market Renewal. The IESO will also continue to ensure that its stakeholder engagement processes, including Market Renewal, seek representation from low-volume consumers where appropriate. The IESO's stakeholder engagement processes seek the input from a wide representation of participants—generators, traders, consumers, stakeholders, First Nations and Metis Peoples, communities, and the general public—and are guided by seven engagement principles that were put in place in November 2015 (see http://www.ieso.ca/sector-participants/ engagement-initiatives/overview/ engagement-	The Independent Electricity System Operator (IESO) will complete a general review of its engagement strategy. The IESO expects to communicate and implement updates to its engagement strategy by Q3 2018. The engagement strategy will continue to be aligned with the IESO engagement principles and ensure wide representation from our market participants, sector stakeholders and other stakeholders such as low volume consumers.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
Oversight Division to have misused IESO programs from participating in the Initiative working group; • *establish a minimum number of working group members representing low-power consumers and ensure that those positions are always filled; and* • *publicly report in clear language how the results of the Initiative will be in the best interests of all ratepayers.*	principles). One of the principles, which applies to Market Renewal, seeks to ensure adequate representation in each engagement of the public or those that have a tendency to remain silent or reluctant to engage. Where practical, a variety of engagement methods will be offered to provide flexibility to participate. The IESO is also required by statute (the Electricity Act, 1998, S.O. 1998, c. 15, Sched. A, s. 188) to have a Stakeholder Advisory Committee that provides appointed stakeholder representatives with the opportunity to present advice and recommendations on key initiatives like Market Renewal directly to the IESO's independent Board of Directors and Leadership Team. Members include low-volume consumers (see http://www.ieso.ca/-/media/files/ieso/ document-library/sac/sac_tor.pdf). **Status Update:** In December 2017, a member representing low volume consumers was added to the Market Renewal Working Group (MRWG). The Independent Electricity System Operator (IESO) will continue to ensure that its stakeholder engagement processes, including Market Renewal, seeks broad, all-inclusive representation.	
AG Recommendation #9	**2017 Annual Report – Response:**	The Market Assessment and Compliance Division (MACD) will complete a risk and resourcing assessment in the first

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division can conduct proper oversight of the market, we recommend that the IESO: • *assess the resources needed to eliminate its investigation backlog and conduct the large-scale investigations that have proven effective in recovering funds and identifying and sanctioning significant rule violations; and* • *attract and retain staff with experience in market rules and expertise in investigation.*	The IESO agrees with the Auditor General's recommendation, as it is consistent with recent increases in staff at the Oversight Division and the process of ongoing review of priorities. As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the enforcement of market rules. As part of this exercise, consideration is being undertaken to both increase the total level of resources made available for enforcement, as well as the conversion of some current resources to full-time and non-temporary staff. In doing so, attracting staff with expertise in market rules and investigations will be a priority. **Status Update:** See Outstanding Undertakings for additional information	quarter of 2018 to identify opportunities to convert contracted staff to regular (i.e., full-time and non-temporary) status and increase the total level of resources to the enforcement and oversight functions.
AG Recommendation #10 *To enable the Independent Electricity System Operator Market Assessment and Compliance Division (Oversight Division) to conduct thorough and effective investigations, we recommend that the Ministry of Energy give the Oversight Division explicit legislative*	**2017 Annual Report – Response:** The Ministry supports the vital roles that the Oversight Division plays in investigating potential infractions in Ontario's electricity system. To ensure that the Oversight Division can effectively conduct its investigations, the Ministry will consult with Independent Electricity System Operator regarding the potential need for additional legislative authority to assist the Oversight Division in performing its mandated duties.	The Ministry of Energy is committed to strong electricity market oversight in Ontario, and is working closely with the Independent Electricity System Operator (IESO) in reviewing the appropriate role and legislative authority of Market Assessment and Compliance Division (MACD) regarding oversight of Ontario's electricity market, in order to ensure effective and efficient investigations into instances of potential abuse of the market rules.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
authority under the Electricity Act to compel information and evidence in the course of its investigations.	**Status Update:** See Outstanding Undertakings for additional information	
AG Recommendation #11 *To ensure that the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division) can conduct proper oversight of the market, we recommend that the IESO replace the Oversight Division's computer system as soon as possible.*	**2017 Annual Report – Response:** As part of the IESO Business Planning process for 2018, the IESO is evaluating the risk profile of a variety of its priorities, including the sufficiency of resources directed towards the Oversight Division's IT support and replacement of the computer system. **Status Update:** Substantial technical support has been provided to the Market Assessment and Oversight Division (MACD) to enable the development of technical business requirements geared towards an enforcement support tool. The MACD is now using a proposed tool on a pilot basis for case management and using industry-standard litigation and evidence management tools to support its current cases.	Market Assessment and Compliance Division (MACD) expects to complete its internal assessment, including user acceptance testing and full implementation of the proposed enforcement support tool by Q2 2018.
AG Recommendation #12 *To strengthen the independence of the Independent Electricity System Operator (IESO) Market Assessment and Compliance Division (Oversight Division), we recommend that the IESO change the Oversight Division's*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO's independent Board of Directors approved in October 2017 a new reporting structure whereby the Director of the Oversight Division will report directly to the IESO Board of Directors and report only administratively to the IESO CEO. **Status Update:**	The Independent Electricity System Operator (IESO) has completed all actions to address the recommendation.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
reporting structure.	Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) completed implementing a new reporting structure whereby the Director of the Oversight Division reports directly to the IESO Board of Directors and reports only administratively to the IESO CEO.	
AG Recommendation #13 *To strengthen its cybersecurity governance, we recommend that the Independent Electricity System Operator (IESO) create a senior-level position for cybersecurity and establish a formal reporting process to both IESO executives and the IESO Board of Directors.*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO is already in the process of recruiting a new Chief Information Officer (CIO) with an increased focus on cybersecurity, and will consider creating a senior-level position for cybersecurity with formal reporting to both IESO executives and the IESO independent Board of Directors. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had initiated a recruitment process for a Chief Information Officer (CIO), with an increased focus on cybersecurity. Based on the senior-level nature of the role, the successful candidate in the CIO position will be an experienced senior technology executive, who has a deep understanding of Critical Infrastructure Protection environments, like the IESO, and demonstrated experience in overseeing enterprise-wide cybersecurity management programs. The CIO will have cross-organizational influence to ensure that cybersecurity risk management is being addressed and integrated across all business units of the organization.	Target date for appointment of Chief Information Officer (CIO) is by end of Q1 2018. The Independent Electricity System Operator (IESO) is also looking to establish a senior-level position for cybersecurity, reporting to the CIO, who will be responsible for the delivery and operations of the IESO's cybersecurity program. The timing of the senior-level cybersecurity role is targeting Q1 2018.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	The CIO will report to the IESO's Chief Executive Officer. This was an internal governance decision, made by the IESO's executive in collaboration with the board.	
AG Recommendation #14 *To ensure there are sufficient cybersecurity resources in place to respond to cyberattacks, we recommend that the Independent Electricity System Operator (IESO) increase the number of cybersecurity staff to the recommended level of seven and/or engage an external IT cybersecurity vendor to be on standby.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO is in the process of implementing an independent consultant's recommendation to increase the number of current cybersecurity staff in a manner consistent with the Auditor General's recommendation. The IESO has also retained the services of a cybersecurity vendor to augment the existing staff in the event of a cybersecurity event. The IESO is also an active member of the North American Cybersecurity Mutual Assistance Program (CMA), which provides access to cybersecurity specialists from over 150 North American utilities in the event of a cyberincident. **Status Update:** Prior to the release of the Auditor's report, the Independent Electricity System Operator (IESO) had started implementing an independent consultant's recommendation to increase the number of current cybersecurity staff, which is consistent with the Auditor General's recommendation. The IESO has retained the services of a cybersecurity vendor to augment the existing staff in the event of a major cybersecurity event.	The Independent Electricity System Operator (IESO) has also launched a competitive process to retain a cybersecurity third-party vendor that will, in conjunction with IESO staff, provide a robust security operations center (SOC) enabling 24/7/365 real-time cybersecurity monitoring.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 3 2017 Annual Report of the Auditor General – IESO – Market Oversight and Cybersecuurity
Ministry of Energy, IESO, OEB

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
AG Recommendation #15 *To reduce cybersecurity risk and to prevent potential costly IT project redesigns, we recommend that the IT department of the Independent Electricity System Operator (IESO) involve its cybersecurity staff in the early stages of all IT projects that could pose cybersecurity risks.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. It is the IESO's current practice that security risk assessments are incorporated in the IT project management practices. Having said that, the IESO will continue to enhance its approach to ensure "cybersecurity by design" in all of its IT-related projects. That means ensuring that the cybersecurity requirements are being considered early in the process of any new IT program design and that sufficient cybersecurity staff are allocated at this important part of any project. This will be further facilitated by the formation of the IESO's new Program Management Office, which will ensure an enterprise-holistic view on all IESO projects. **Status Update:** The Independent Electricity System Operator's (IESO) new Project Management Office was formed in Q4 2017.	The incoming Chief Information Officer (CIO) and senior-level cybersecurity resource (as referenced in the Independent Electricity System Operator (IESO) responses to recommendation #13) will establish effective governance ensuring that security practices are being built-in to the IESO's project management program and individual IT project lifecycles. The IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain. This would be applicable to the vendor supply chain that delivers industrial control system hardware, software, and computing and networking services associated with not only the bulk system operations, but traditional enterprise environments. The best practice guide is expected to be in place by the end of 2018.
AG Recommendation #16 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that the IESO procure technology that prevents and identifies breaches of confidential information and monitors*	**2017 Annual Report – Response:** The IESO agrees with the Auditor General's recommendation. The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The IESO has procured technology that prevents and identifies breaches of confidential information and monitors staff access to confidential information in real time through the Advanced Malware project, and is	The Independent Electricity System Operator (IESO) is currently making minor refinements to the Advanced Malware system, and project closure is planned for the end of Q1 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
staff access to confidential information in real time.	implementing that technology now, with a target completion date of the end of the fourth quarter of the 2017 fiscal year. **Status Update:** The Independent Electricity System Operator (IESO) has procured robust detection technology that has the ability to not only identify unusual activity that could lead to breaches of confidential information, but also malicious activity that could compromise the integrity of the IESO IT environments. Through the delivery of the Advanced Malware project, the detection technology is now in place, and in addition, all objectives identified in the business case for the project were met in 2017.	
AG Recommendation #17 *To reduce the cybersecurity risk of the Independent Electricity System Operator (IESO), we recommend that:* • *the IESO establish an external vendor cybersecurity policy; and* • *the cybersecurity team conduct a regular assessment of the security risk that external vendors pose to the IESO.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. The cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met. The IESO was an active participant in the development of the NERC Supply Chain risk standards, and is in the process of developing and implementing supply chain risk management measures to comply with these standards, which will also include processes that are responsive to the recommendation. **Status Update:** On an ongoing basis, the Independent Electricity System Operator's	The Independent Electricity System Operator (IESO) is in the process of developing and implementing supply chain risk management measures that comply with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection Supply Chain risk standards, which will also include processes that are responsive to the recommendation. The IESO is expanding its cybersecurity governance framework over the next two to three years to meet the National Institute of Standards and Technology (NIST) Cybersecurity framework that will help assess and mitigate vendor risks to the supply chain. This framework will establish effective security governance around external vendors. The plan associated with this will be developed by the end of 2018.

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including Timeline)
	(IESO) cybersecurity team works directly with the procurement and legal processes to ensure security requirements are met.	As identified, the IESO will also be developing a best practice guide for the sector on cybersecurity risks in the supply chain; the guide is expected to be in place by the end of 2018.
AG Recommendation #18 *To ensure that backup tapes are adequately protected and available when needed, we recommend that the Independent Electricity System Operator (IESO):* • *properly encrypt all backup tapes; and* • *store them in a secure off-site location.*	**2017 Annual Report – Response:** The IESO complies with all applicable North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, which include standards for cybersecurity. Access to backup tapes is tightly controlled both in on-site and off-site storage. The IESO will investigate the feasibility of storing all backup tapes off-site and of further protecting backup tapes with encryption. The IESO does not rely on backup tapes as a primary recovery mechanism as all of our critical systems are high availability and site redundant through our Backup Data Centre. **Status Update:** The Independent Electricity System Operator (IESO) has eliminated the use of tape-based backups in favour of system and data redundancy across two highly available and redundant data centers.	The Independent Electricity System Operator (IESO) will continue investigating the feasibility of storing all legacy backup tapes off-site and to further protection of legacy backup tapes with encryption.

Standing Committee on Public Accounts.pdf

From:	Armstrong, Hillary (ENERGY)
To:	Cox, Hilary (ENERGY)
Cc:	Schlaepfer, Martin (ENERGY); Nucciarone, Michael (ENERGY); Lyon, Sam (ENERGY); Berg, Denna (ENERGY)
Subject:	Standing Committee on Public Accounts
Date:	January 5, 2018 6:45:47 PM
Attachments:	2017AR S306_Imbrogno.pdf 2017AR CH2_Imbrogno.pdf

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Hi Hilary,

I don't think I actually sent this your way before. We have been asked to attend the Standing Committee on Public Accounts for two chapters of the AG's 2017 Annual Report:

- Chapter 2 – Public Accounts of the Province (February 28)
- Chapter 3 – Market Oversight and Cybersecurity (March 7)

You will see holds in the calendar for both of these dates. Next week I will regroup with the Deputy on next steps for this and we will be in touch.

In terms of attendees, for Chapter 2, the Deputy would like Steen to attend (both OPG and IESO will also be attending. Does Steen also want Tim to attend? If you can confirm with him on Monday that would be great, as TBS is coordinating and is interested in our names. For Chapter 3, both the OEB and IESO will be attending, and the Deputy will want Steen there as well. Let me know if Steen wants a director at this one as well, and I can confirm with the Deputy.

Thanks,
Hillary

2017AR S306_Imbrogno.pdf

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

December 20, 2017

Serge Imbrogno
Deputy Minister
Ministry of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, ON M7A 2E1

Dear Mr. Imbrogno,

The Standing Committee on Public Accounts will be reviewing **Independent Electricity System Operator – Market Oversight and Cybersecurity (Section 3.06 of Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario).**

I have been instructed by the Committee to arrange for your attendance, together with officials from the Independent Electricity System Operator and the Ontario Energy Board, to provide the Committee with a response to the Auditor General's report and to answer any questions the Committee Members may have. It is anticipated that your delegation will give a brief overview of up to 20 minutes, including any information on anticipated or completed work-plans designed to address the concerns outlined in the report.

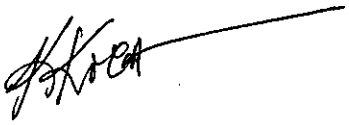
The hearings are scheduled for Wednesday, March 7, 2018, and will take place in Committee Room 151 of the Main Legislative Building from 12:30 p.m. to 3:00 p.m.

Enclosed is a sample of the suggested format for your status report. It would be appreciated if an electronic version and a hard copy of the status report could be received no later than February 21, 2018. Should you provide other written material thereafter, please bring 20 copies with you to the meeting.

Please confirm in writing your attendance as well as the names and titles of any other persons who may be accompanying you.

On behalf of the Committee, I thank you for your assistance in this matter. If I can be of any assistance, please do not hesitate to contact me at 416-325-3526 or at comm-publicaccounts@ola.org.

Sincerely,



Katch Koch
Clerk of the Committee

Cc: Ernie Hardeman, MPP, Chair of the Committee
Bonnie Lysyk, Auditor General

Summary Status Table in Response to the Report of the Auditor General of Ontario

[*Title of section*]

[*Section #, 2017 Annual Report of the Auditor General*]

[*Name of Ministry or Organisation*]

Auditor's Recommendation	Completed undertaking	Outstanding undertaking (including timeline)

2017AR CH2_Imbrogno.pdf

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

December 20, 2017

Serge Imbrogno
Deputy Minister
Ministry of Energy
4th Floor, Hearst Block
900 Bay Street
Toronto, ON M7A 2E1

Dear Mr. Imbrogno,

The Standing Committee on Public Accounts will be reviewing **Chapter 2 – Public Accounts of the Province (Volume 1 of the 2017 Annual Report of the Office of the Auditor General of Ontario).**

I have been instructed by the Committee to arrange for your attendance, together with Steen Hume and officials from Cabinet Office, Treasury Board Secretariat, the Ministry of Finance, the Ontario Financing Authority, the Independent Electricity System Operator and Ontario Power Generation, to provide the Committee with a response to the Auditor General's report and to answer any questions the Committee Members may have. It is anticipated that your delegation will give a brief overview of up to 20 minutes, including any information on anticipated or completed work-plans designed to address the concerns outlined in the report.

The hearings are scheduled for Wednesday, February 28, 2018, and will take place in Committee Room 151 of the Main Legislative Building from 12:30 p.m. to 3:00 p.m.

Please confirm in writing your attendance as well as the names and titles of any other persons who may be accompanying you.

On behalf of the Committee, I thank you for your assistance in this matter. If I can be of any assistance, please do not hesitate to contact me at 416-325-3526 or at comm-publicaccounts@ola.org.

Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5.pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Armstrong, Hillary (ENERGY); Cox, Hilary (ENERGY)
Subject:	Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5
Date:	January 18, 2018 5:26:04 PM
Attachments:	Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5.docx

Hi Martin: As part of the prep for SCOPA/Chapter 2, TBS / Cindy asked us to review the attached table re government's response to the AG recommendations. The table includes the AG final recommendations, our November comments and TB's latest comments. Until we have better sense of the overall approach to SCOPA, ESPD is generally fine with the content in the table. IESO is also reviewing and TBS is coordinating input from OPG.

TBS had asked for this by tonight, but we've advised that IESO may not return the document until early tomorrow.

For now, let's just treat this as an FYI product. Generally feeling there are too many information requests coming in from TB (i.e., we need a 1-window approach).

Happy to discuss further. Steen

Status Table_Ch 2 of AG AR_SCOPA_2 3 and 5_1_1.pdf

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #2 *We recommend that the government remove the Independent Electricity System Operator's Market Accounts from the Province's consolidated financial statements.* *OPCD with Energy and IESO*	The Province consolidates the entities it controls, in accordance with Public Sector Accounting Standards (PSAS) and its internal reporting policies. Each consolidated entity produces its own stand-alone financial statements and is subject to its own financial statement audit. In 2016, the Independent Electricity System Operator (IESO) changed the accounting for the market accounts and recognized these balances on its financial statements. The financial statements of the IESO for the year-ended December 31, 2016 were subject to an external audit and received an unqualified (or clean) opinion. The government supports this enhanced reporting and greater transparency for the economic activities of the IESO. Additional comments with respect to IESO's accounting for the Market Accounts are included in the response to Recommendation #5 of this report.	The government supports the enhanced reporting and greater transparency for the economic activities of IESO resulting from the recognition of the market accounts. The government is open to continue to discuss the issue in the hopes of resolving this matter.
AG Recommendation #3 *We recommend the government follow the accounting standards established by the Public Sector Accounting Board and the Province's historical accounting precedent, and implement the*	The government prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS). The proposed accounting for the Ontario Fair Hydro Plan reflects the economic substance of the transaction by differentiating costs borne by taxpayers versus those borne by ratepayers. PSAS is silent on the recognition, measurement, presentation and disclosure of rate-regulated activities. In absence of a clear position on an issue, standard accounting practice dictates that an entity should	The government intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards (PSAS). [OPG comment re: interest cost] The government is open to continue to discuss the issue in the hopes of resolving this matter.

Commented [HS(1]: This was the feedback we prepared in response to the AG's recommendations in Chapter 2.

Commented [HS(2]: TBS asked ENERGY, IESO and OPG to review the text that has been prepared by TBS.

Commented [HS(3]: TBS has asked for feedback from OPG directly

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
recommendations in the Special Report issued by our Office and tabled in the legislature on October 17, 2017, titled The Fair Hydro Plan: Concerns About Fiscal Transparency, Accountability and Value for Money, as follows: • *Record the true financial impact of the Fair Hydro Plan's electricity rate reduction on the Province's budgets and consolidated financial statements; and* • *Use a financing structure to fund the rate reduction that is least costly for Ontarians.* *Opcd with Energy, IESO, OFA*	consult other accounting standards. This guidance for PSAS is included in PS1150.07. Regarding the Office of the Auditor General's (OAG's) recommendation that the financing for Ontario's Fair Hydro Plan (OFHP) be pursued at the lowest cost to Ontarians, the government reiterates its concerns with this characterization, which were previously provided in the October 4, 2017 government response to the OAG's special report on OFHP (see Government Response to OAG Report on the Fair Hydro Plan in Appendix 5 of the Auditor General's Special Report). With respect to the Global Adjustment Refinancing (GA Refinancing) component of the OFHP, the policy objective is to more fairly allocate the cost to ratepayers over the useful life, not the contractual term, of the electricity generating assets. Therefore, it was a primary policy objective to ensure that the costs are borne by the beneficiaries of the electricity system – the ratepayers – and not the tax-base. The government believes it is appropriate for ratepayers to pay for the financing of electricity assets. The rate-base has a different risk profile than the tax-base, which would be reflected in different interest costs. The various entities that operate in the electricity industry have different financing costs that are specific to their risk profiles. The industry does not operate and is not financed through the Province. Ontario Power Generation (OPG) was identified as the Financial Services Manager responsible for the financing plans and the financing entity (i.e., Fair Hydro Plan Trust) that will manage the	

Commented [HS(1]: This was the feedback we prepared in response to the AG's recommendations in Chapter 2.

Commented [HS(2]: TBS asked ENERGY, IESO and OPG to review the text that has been prepared by TBS.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
	debt obligations. OPG has the necessary financing and commercial expertise to assist with refinancing the Global Adjustment (GA) and will ensure that it is done in an efficient and cost-effective manner. OPG has a demonstrated track record in the financial markets with its Corporate Debt platform, private placement of insurance linked bonds, participation in securitization program and highly successful project debt issuances tied to new hydroelectric developments. OPG is beginning the process of raising funds to finance the deferred costs, and while total borrowing costs will not be known until the program is complete, accumulated interest is projected to be considerably less than the estimates in the May 2017 report of the Financial Accountability Office (FAO). The figures referenced in the FAO's report was based on initial Ministry of Energy estimates from March 2017. Subsequent analysis conducted by the Ministry of Energy refined a number of variables, including the cost of borrowing and the quantity of GA to be refinanced. A number of variables, including interest rates, electricity demand and electricity costs, will change over the thirty-year life of OFHP. Government will continue to revise cost estimates to reflect these variable conditions. In addition, as outlined in the 2017 Long-Term Energy Plan, the government will continue to identify and implement initiatives to take costs out of the electricity system, which would reduce the cost of GA refinancing.	

Commented [HS(1]: This was the feedback we prepared in response to the AG's recommendations in Chapter 2.

Commented [HS(2]: TBS asked ENERGY, IESO and OPG to review the text that has been prepared by TBS.

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
AG Recommendation #5 *We recommend that the Independent Electricity System Operator (IESO), an "other government organization," use the Canadian Public Sector Accounting Standards (PSAS) in the preparation of its financial statements. Specifically, it should:* • *Remove market accounts recorded on its financial statements; and* • *Discontinue the inappropriate use of rate-regulated accounting in the preparation of its financial statements.* *To ensure that the members of the Legislative Assembly receive financial information on the operations of the IESO prepared in accordance with Canadian PSAS, the Office of the Auditor General will conduct an attest audit of the*	The Independent Electricity System Operator (IESO) prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and the financial statements are audited by a firm of independent external auditors whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with PSAS. On its 2016 financial statements, IESO received an unqualified (clean) audit opinion. In its role as market administrator, IESO operates and settles approximately $17 billion through the electricity market. The change to include market account assets and liabilities in the financial statements provides increased transparency with respect to the value of transactions that flow through Ontario's electricity market, that otherwise would go unreported in IESO's financial statements. These changes were extensively discussed with IESO's external auditors, its Audit Committee and its Board of Directors. The decision was supported by the Office of the Provincial Controller and IESO's external audit firm. Rate-regulated accounting better reflects the economic substance of certain types of IESO expenses (like those related to the Smart Metering Entity) that may not be directly recovered through normal revenue requirement models, and instead are recovered through rate regulation. This change is in line with accounting practices followed by six out of eight other	The IESO intends to continue to prepare its financial statements in accordance with Public Sector Accounting Standards.

Commented [HS(1]: This was the feedback we prepared in response to the AG's recommendations in Chapter 2.

Commented [HS(2]: TBS asked ENERGY, IESO and OPG to review the text that has been prepared by TBS.

Commented [HS(4]: IESO is reviewing

Summary Status Table in Response to the
Report of the Auditor General of Ontario
Chapter 2 2017 Annual Report of the Auditor General
Treasury Board Secretariat, Ministry of Finance, Ministry of Energy

Auditor's Recommendation	Completed Undertaking	Outstanding Undertaking (including timeline)
December 31, 2017, financial statements of the IESO as permitted under the Electricity Act, Subsection 25.2(2), which states: "The Auditor General may audit the accounts and transactions of the IESO. 2014, c. 7, Sched. 7, s. 3 (1)." *IESO with Energy and OPCD*	independent system operators in North America and provides IESO financial statement users greater transparency into the substance of the variance accounts it holds and its right to collect an amount in the future.	

Commented [HS(1]: This was the feedback we prepared in response to the AG's recommendations in Chapter 2.

Commented [HS(2]: TBS asked ENERGY, IESO and OPG to review the text that has been prepared by TBS.

Updated for ADM approval_ SCOPA materials (QA).pdf

From:	Kitchen, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	Updated for ADM approval: SCOPA materials (QA)
Date:	February 26, 2018 5:35:43 PM
Attachments:	a. 2018-02-26 QA AFT_SCOPA_KSH v2.1.docx

Kaili:

Attached are the revised QAs for SCOPA - CEEB's updates are tracked.

Matt

From: Schwab-Pflug, Emma (ENERGY)
Sent: February 26, 2018 5:31 PM
To: Kitchen, Matthew (ENERGY)
Cc: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY); Edwards, Matthew (ENERGY); Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Matt, revised QAs attached. SeE Yvonne's note below.

Matt E. – now moving on to matrix. We will have to review the AFT just-provided QAs either later tonight or first thing tomorrow.

Thanks,
Emma

From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 3:49 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Hi Emma,

QAs attached.

Of note, Kaili changed in this and the previous two document 'about 70' electricity distributors to '65'. I know she has LDCs in mind, but the about 70 leaves more room for the IPAs. Maybe you can note this in the email which goes over.

Happy to discuss.

Thanks,
Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,
Emma

From: Kitchen, Matthew (ENERGY)
Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM
To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs
QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

a. 2018-02-26 QA AFT_SCOPA_KSH v2.1_1.pdf

QAs for SCOPA

AFFORDABILITY FUND

1. Tough Q&As_____p.1
2. Direction and Administrative Considerations_____p.3
3. Program Considerations_____p.7
4. Trust Considerations_____p.12
5. Linkage Questions_____p.14

1. Tough Q&As

Why is the affordability fund being designed and administered by an independent trust? Why not have the IESO, for example deliver the programs?

Commented [KM(1]: Answer does not address this qustion. Please address 'why not have IESO deliver' - take from deleted q below?

- -The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.
- -With approximately ~~70~~ 65 electricity distributors in the province, the Province entering into agreements with each distributor was not feasible. The Trust structure establishes an independent entity with expertise from social service agencies and the electricity distributor sector.
- Administering the Fund through an independent Trust, as opposed to the IESO or OEB, enables the Fund to focus on its mandate of helping those who are in need, but not eligible for low-income conservation programs.
- ~~Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust operates in a streamlined fashion flowing funds directly to electricity distributors.~~

Commented [ESPf2]: This was copied from the deleted response, but could suggest that the IESO or OEB have high admin costs

- Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.
    - The Board of Trustees for the Trust includes representation from community ~~service~~ organizations (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.
- ~~A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner to ensure beneficiaries receive….~~
- ~~Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.~~

- Hydro One has played an important role in facilitating the establishment of the Trust, and continues to play an administrative support role to the Board of Trustees in the implementation of the Affordability Fund. \
    - Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.
- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, will continue to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

Why is there a need for an Affordability Fund? Why are we spending $100 million on this?

- In 2016, electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection:
    - LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides low-income support program.
- In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.
- The Save on Energy Home Assistance Program (HAP), delivered by electricity distributors in collaboration with the IESO, requires participants to meet a mandated definition of low-income consumers (derived from Statistics Canada).
- Not all customers who are in need are eligible for HAP.
- On March 2, 2017, the government announced the establishment of an Affordability Fund as part of its Fair Hydro Plan.

- The Affordability Fund ~~will provide~~is providing energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

- The Affordability Fund is~~will~~ provid~~e~~ing similar measures to the HAP program, such as:
    - Energy-saving light bulbs (LEDs)
    - Power bars
    - Energy-efficient window air conditioners
    - Energy-efficient refrigerators
    - Basement, wall or attic insulation

- Air source heat pumps are also an eligible measure~~s~~ under the Affordability Fund for homes that are electrically-heated.

- The level of energy burden calculated for the participating household ~~will~~ determines the level of home upgrades and total cost of measures it will be able to receive from the Affordability Fund.
    - Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
    - Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
    - Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current draft program design, recipients could receive measures ranging from $500 to over $15,000 per customer (including air source heat pumps). ***(NTD: range of $500-$15,000 per customer is confidential and has not been made public)***

If pressed:

- The AFT estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households. ***(NTD: number of households has not been made public)***.

- The Affordability Fund ~~is being~~was created to provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support. Not all customers who are in need are eligible for HAP.

Commented [KM(3]: Please double check to snure tense is correct and consistent throughout.

Commented [RO(4R3]: Alternatively, "provides"

- A Trust based centralized delivery model with electricity distributors and community services organizations as Trustees gives direct control and responsibility to those agents who can readily determine which electricity customers are most in need, for example those who are facing disconnection or do not qualify for the low-income electricity conservation program.

- The IESO, who has significant expertise, resources and infrastructure for the design and delivery of conservation programs in Ontario, ~~will~~ continues to oversee delivery of HAP. In fact, in August of this year, to further improve the availability of and support for conservation programs that help low-income customers, the Minister of Energy directed the IESO to centrally deliver the Home Assistance Program across all LDC service territories beginning January 2018.

2. DIRECTION AND ADMINISTRATIVE CONSIDERATIONS

Q. Why is there a need to provide $100 million upfront? Couldn't the funding be provided in phases?

The Affordability Fund ~~will be~~was established through an independent Trust that ~~will be~~was provided with an upfront amount of $100 million. The Trust ~~will~~ is administering the Affordability Fund and ~~disburse~~ disbursing funding to electricity distributors. The principles outlined in the Trust Deed will ensure compliance with the Transfer Payment Accountability Directive and the value for money principle.

Given the scope of the Fund, a firm upfront financial commitment was required before implementation:

- An upfront commitment enables the Fund Administrator to disburse funding to electricity distributors as applications are received, without the risk of delays due to insufficient cash flow.

- It also allows electricity distributors to apply for funding and initiate planning and implementation for the year ahead. Electricity distributors will need to contract with energy efficiency delivery agents to deliver the programs within their service areas.

- The Trust will help address an *immediate need* – for electricity distributors to assist their customers who are struggling with their electricity bills, including those in arrears or facing disconnection. Energy efficiency improvements can help ~~lower~~ customers energy ~~bills and put them~~get on a more sustainable path with their energy bills.

Q. Explain how payments to the Trust and electricity distributors are made.

The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).

- The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
- On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.

~~On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.~~

~~**Table 1: Board of Trustees for the Affordability Fund Trust**~~

~~**Organization**~~	~~**Representative**~~
~~United Way Ottawa~~	~~Michael Allen (President and CEO)~~
~~Neighbour to Neighbour Centre~~	~~Denise Arkell (Executive Director)~~
~~Thunder Bay Hydro~~	~~Tim Wilson (VP Customer and Information Services)~~
~~Hydro One~~	~~Warren Lister (VP Customer Service)~~
~~Alectra~~	~~Raegan Bond (VP Conservation and Demand Management)~~
~~Ministry of Energy~~	~~Kaili Sermat-Harding (Assistant Deputy Minister)~~

- ~~Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.~~

~~The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers. The Trust, guided by the TPA and the Declaration of~~

~~Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.~~

Commented [KM(5]: Answer is not relevant. Please revise to address the question.

The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, who in turn provide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support. Eligible customers are identified through an Energy Affordability Burden test, which is confirmed by electricity distributors. Eligible customers could include those in frequent bill arrears or facing disconnection.

The Affordability Fund is guided by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs, to ensure consistent access for LDCs across the province.

Q. What are the anticipated overhead requirements for the Affordability Fund?

The Trust will be responsible for establishing consistent processes, administration, and criteria for funding applications, in order that the program is managed on a consistent basis across the province. It is expected that administrative/overhead/staffing expenses of the Trust will be in accordance with the principles outlined in the Province's Cash Management Directive and Transfer Payment Accountability Directive.

Q. Why is there a need to spend in this particular area? On what basis did the Ministry determine the need for such a Fund?

To help electricity consumers across the province achieve cost savings, the government ~~has proposed a~~ presented the Fair Hydro Plan, which included~~s~~ establishing a Fund to provide support for energy efficiency improvements to help customers reduce future electricity bills and avoid future disconnections.

Commented [KM(6]: Update tense

The existing Home Assistance Program delivered the IESO and LDCs helps qualified homeowners, tenants and social housing providers improve the energy efficiency of their homes. HAP provides energy efficiency devices and products at no cost to qualified Ontario homeowners, tenants and social and/or assisted housing providers to improve the energy efficiency of their homes, through the installation of LED light bulbs, ENERGYSTAR certified ceiling fans, baseboard programmable thermostats, clotheslines and advanced power bars. Homeowners may also be eligible for a new, energy-efficient refrigerator or other appliance, such as a window air conditioner, and for weather stripping around your doors and windows and additional insulation in your attic or basement.

There are, however, many consumers who do not meet the mandated definition of low-income consumers under HAP. At the time that the Affordability Fund Trust was established, the Ministry was aware that LDCs had reported to the OEB that, at the end of 2015, there were over 560,000 electricity accounts in arrears, of which only 19,900 accounts (~3.6%) were eligible to receive the LEAP Emergency Financial Assistance.[1] LDCs have also reported to the OEB that in 2015, about 60,000 customers had their electricity service disconnected.

And these trends contined in 2016:

- Over 58,000 customers were disconnected in 2016.
- Electricity distributors also reported about 400,000 residential electricity accounts in arrears in 2016.

~~Q. Why establish a Trust?~~

~~The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to electricity distributors.~~

~~With approximately 70 electricity distributors in the province, entering into TPAs with each distributor is not feasible. The Trust structure establishes an independent entity with expertise from Hydro One, social service agencies and the electricity distributor sector.~~

~~It is expected that the Board of Trustees will represent a geographical cross section of the Province and thereby avoid any perception of favouritism. A Trust based centralized delivery model will ensure effective oversight of funds and will ensure funds are used in the most efficient manner.~~

Q. Were~~Are~~ there other potential program recipients that could have delivered the program?

LDCs have over 10 years of experience in conservation program delivery, including experience specific to low-income conservation programs. LDCs and other electricity distributors such as Independent Power Authorities, who are also eligible for the Fund, are also best positioned to identify and target their customers and to working directly with the Trust, to support the program's objectives.

[1] Source: Ontario Energy Board. Reported by LDCs to the OEB, but unverified.
LEAP EFA income thresholds for eligibility are similar to those in HAP. Those receiving LEAP EFA automatically income qualify for HAP.

This structure also leverages the expertise and existing resources of Hydro One, as well as ~~of potentially others in the LDC sector~~service delivery agents~~,~~ in conservation program delivery and customer marketing/outreach.

Alternative delivery agents like the United Way (of Canada; of Toronto; of Simcoe) were considered, but were considered suboptimal.

The United Way is a not-for-profit with a direct role in providing intake services to income qualifying individuals for support programs, such as the Low-Income Energy Assistance Program ("LEAP") Emergency Financial Assistance and the Ontario Electricity Support Program ("OESP"). However, the United Way does not have expertise or understanding of conservation and demand management programs, has no direct channel or ties to ~~LDCs~~electricity distributors, and has limited understanding of electricity service delivery. In addition, the Affordability Fund would not be a public-facing program, but rather would rely on electricity distributors ~~LDCs~~ to identify their respective eligible electricity customers and deliver the funding in accordance with the program. ~~An organization like the United Way lacks the capacity to deliver a Fund program, and it would take time to build that capacity.~~

~~**Q. Why can't the OEB and IESO administer the Affordability Fund?**~~

~~Administering the Fund through an independent Trust as opposed to the IESO or OEB will also ensure the administration costs are kept to a minimum. The Trust would operate in a streamlined fashion flowing funds directly to electricity distributors.~~

~~The Trustees of the Trust are responsible for reviewing the applications to the Fund and authorizing the flow of funds. Having a broad representation of electricity distributors and social service sector on its Board, enables the Trust to leverage the knowledge and expertise of those that are best positioned to target those customers that are in-need of assistance.~~

~~Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund. Hydro One is the single largest electricity utility in Ontario, providing service to 25% of electricity ratepayers. It also has the largest number of electrically heated customers in Ontario.~~

3. PROGRAM CONSIDERATIONS

Q. Provide details on how LDCs will deliver the Affordability Fund program to their customers.

The Affordability Fund, administered by an independent Trust, is accessible to electricity distributors, to provide energy efficiency measures to eligible customers. Eligible households are those who are not eligible for the low-income Home Assistance Program and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.

The Affordability Fund is guided by principles and general guidelines outlined in the TPA and Declaration of Trust, established by the Ministry of Energy in consultation with Hydro One and other LDCs to ensure consistent access for LDCs across the province.

Q. What will customers receive? What are eligible energy efficiency measures under the Fund?

Eligible electricity customers could receive measures ranging on average from $500 to $15,000 per customer, at no or minimal cost. ***(NTD: AFT Program Protocol v1.1 page 16. These numbers are confidential and have not been made public)***

Measures are ~~expected to be~~ similar to those available in the Home Assistance Program, which include:

- energy-saving light bulbs (LEDs);
- power bars;
- energy efficient window ACs;
- refrigerators, freezers, dehumidifiers;
- low-flow showerheads, hot water blankets;
- pipe wrap and faucet aerators (in homes with electric water heating); and
- programmable thermostats, weather stripping, insulation (in homes with electric heating).

Additional AFT measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher. Cold climate air source heat pumps, which can cost from $7,000 to $13,000, are~~would~~ also ~~be~~ an eligible measure under the Fund for homes that are electrically-heated.

Commented [KM(7]: Update

These are the HAP measures.

Q. What is the eligibility criteria for the program?

The Fund is~~will~~ balanc~~e~~ing the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

Over summer 2017, the Trust sought input from the OEB and stakeholders, including LDCs and representatives of social service organizations, in establishing eligibility criteria/guidelines for LDCs to identify and verify eligible customers, any additional criteria to prioritize customers, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

The level of support available to eligible households under the Affordability Fund program is based on the energy affordability burden.

Commented [KM(8]: Add a separate QA directly below on What is this EA burden and how it works.

Q. What is the energy affordability burden?

All Fund beneficiaries will be members of households whose electricity costs place a strain on the family. This strain is captured in a metric known as the Electricity Affordability Burden (EAB).

The EAB is calculated by dividing the total electricity charges by the net household income~~is is the ratio of the utility 'asked to pay amount' divided by the 'net household income'~~. This total electricity charges include the installment and fees expected of the account holder over the period under consideration. Installment payments, bills, and fees are assessed over the same period as the net household income.

EAB = (Electricity Bills + Installment Payment + Fees) / Net Household Income

Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

Q. Would tenants be eligible?

Tenants who pay their electricity bills could be among the eligible customers identified by ~~LDCs~~ distributors as needing help. The Affordability Fund is~~would~~ targeting those electricity customers who do not qualify for low-income conservation programs and who have difficulty paying their electricity bills. Eligible customers will be identified by ~~LDCs~~ distributors and could include those in frequent arrears or facing disconnection.

Q. How soon will eligible customers be able to start benefiting from the Fund?

Eligible customers have already begun receiving energy efficiency measures, and customers who have applied are expected to begin receiving funds early this year. ~~The Trust operates in a streamlined fashion flowing funds directly to electricity distributors. Interested electricity distributors apply to the Affordability Fund and are will be responsible to deliver the program to those customers they have identified as eligible. The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program. Eligible customers have already begun receiving energy efficiency measures. .~~

Q. How much can a customer who takes advantage of the Fund expect to save?

Based on historical performance of the Home Assistance Program, a participant can on average expect an electricity savings of 1,000 kWh per year, depending on which measures are installed in the home. Electricity saving measures can include for example weather stripping, upgrade in energy efficient appliances like refrigerator, freezer or window AC. This translates to a bill savings of about $160 per year. In the case of electrically-heated homes, which are eligible for deeper weatherization measures like attic, wall and basement insulation and also air-source heat pumps, the savings could be as high as 4,000 kWh per year, which translates to over $600 in annual electricity bill savings.

Q. Can Independent Power Authorities (IPAs) and remote First Nation communities take advantage of the Affordability Fund?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. The intention is to help those who are connected to the provincial electricity grid. The Trust is~~We are~~ open to feedback at this time on access by customers served by IPAs and remote First Nation communities.

Commented [KM(9]: This should be the Trust and not 'we' (the governemnt)

Commented [RO(10R9]: Resolved

Q. How much funding will each electricity distributor or LDC get?

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province.

The Trust structure provides an effective solution to an otherwise challenging problem of distributing dollars to about 65~~70~~ electricity distributors.

In summer 2017, AFT engaged with electricity distributors, IESO and OEB, and social service sector to design funding criteria and processes, and guidance on the funding allocation methodology. The OEB has been examining issues associated with low income energy consumers since 2008.

Q. Will the program be delivered province-wide?

Yes, the program will be delivered province-wide.

Commented [KM(11]: add text on how it will be deliverd province-wide (if possible)

The Affordability Fund Trust is accessible to all electricity distributors in Ontario, to provide energy efficiency upgrades to eligible customers. Where a distributor cannot or does not wish to provide the program, Hydro One will deliver in this service territory on behalf of the Trust.

To be eligible, the residence must be located in the Province of Ontario and be used exclusively for residential occupancy or be a multi-unit residence, with the Beneficiary being responsible for the direct payment of their electricity usage and costs.

The Affordability Fund is overseen and administered by an independent Trust to ensure equitable and fair access for electricity distributors across the province. For example, the AFT has developed three levels of home upgrades and associated spending caps, to ensure consistency across the Province.

- Level 1: A kit of energy efficiency equipment (e.g., LEDs, power bars, block heater timers efficient showerheads or aerators)
- Level 2: Direct installation of energy efficiency measures (appliance like refrigerator or window AC, programmable thermostat), and home energy improvement program.
- Level 3: Direct installation of energy efficiency measures (heat pump, comprehensive draft proofing, insulation), and home energy improvement program (for electrically-heated homes only).

~~The Affordability Fund Trust is accessible to electricity distributors to provide energy efficiency measures to Ontarians who are not eligible for low-income conservation programs (HAP), and who are unable to undertake energy efficiency improvements without support. Eligible customers will be identified by electricity distributors (i.e. based~~

~~on a calculation of the energy affordability burden) and could include those in frequent arrears or facing disconnection.~~

Q. How will the Affordability Fund program be marketed?

On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. This announcement built a narrative that leverages announcements on the Fair Hydro Plan and its elements, helping to lower electricity costs across the province. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.

The Affordability Fund Trust has developed a communication strategy, including marketing and outreach activities. It is expected that electricity distributors delivering the Affordability Fund program will undertake targeted outreach to their customers.. Eligible customers will be identified by electricity distributors.

Q. How will you evaluate the success of the Affordability Fund?

Success of the Affordability Fund will be evaluated on the basis of dissemination of funds to electricity distributors and regular progress reports on program participation. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements, including:

- Amounts disbursed by the AFT to Electricity Distributors, and in aggregate.
- Total Affordability Fund investment income earned and accrued to date.
- Key activities and achievements from the quarter, including the number of participant households per Electricity Distributor, average participant incentive cost per Electricity Distributor, and uptake of energy efficiency measures per Electricity Distributor.
- Any challenges or modifications to the application, funding, or eligibility processes/rules of the AFT.
- Electricity Distributor and customer feedback and lessons learned.

~~**Q. Identify the risks that would prevent the program from achieving its objectives.**~~

~~Not all customers in need will actively seek help. For example, there are those electricity customers who are not low-income but who struggle to pay their electricity bills and opt to do so in place of other necessities. These customers may not yet be on the radar of an LDC's collections department, for example.~~

~~How quickly and where funds will be distributed depends on the processes established by the Trust and the time that it takes individual LDCs to prepare for delivery of the Affordability Fund program.~~

~~LDCs note that some customers in arrears may be "gaming the system" and not truly in need. LDCs know their customers best and are best positioned to identify customers in need, based on billing history and past customer relations.~~

~~There is some complexity in the market and potential customer confusion due to the availability of other energy support and energy conservation programs (Home Assistance Program, Ontario Electricity Support Program, Low-Income Energy Assistance – Emergency Financial Assistance, Enbridge and Union Gas Home Winterproofing and Home Weatherization programs). Social service agencies play an important role for low-income customers, in helping navigate this landscape of these and other social assistance programs.~~

~~Additionally, the AFT and IESO are working on aligning the Affordability Fund and Home Assistance Program. Beginning January 1, 2018, the HAP undergoing enhancements. As directed by the Ministry, the IESO is centrally delivering HAP to further improve the impact and availability of conservation programs that help low-income customers.~~

Q. Will the energy savings achieved under the program count towards LDC conservation targets?

Electricity savings achieved under the new program are tax-funded and will not count toward LDC conservation targets under the Conservation First Framework.

4. TRUST CONSIDERATIONS

Q. How much control does the Province or Hydro One have over the Trust?

The Affordability Fund Trust has been established as a non-controlled independent Trust, to oversee, administer and distribute funds to electricity distributors across the province to help eligible households undertake energy efficiency improvements. The Trust is undertaking its duties on the basis of principles and guidance in the TPA between the ministry and the Trust, and the Declaration of Trust, established by the Province. Trustees have discretion on how they implement the program.

The Trust structure leverages the expertise of the electricity and social assistance sectors. The composition of the Board of Trustees represents a geographical cross section of the Province and has been selected based on experience in managing funds and experience in low income program delivery and oversight.

Table 1: Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Raegan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

The Trustees include representation from Hydro One, but the Trust includes sufficient non-Hydro One and non-government representatives to ensure neither Hydro One nor the government control voting decision of the Trust.

- Hydro One has played an important role in facilitating the establishment of the Trust, and will continue to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

The Ministry of Energy is a non-voting Trustee, and sits on the Board of Trustees as an observer.

~~The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributor.~~ The Trust, guided by the TPA and the Declaration of Trust, is~~will~~ distributing~~e~~ funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers.

Q. What accountability and reporting structures ~~will be~~are put in place to ensure that the Trust administers funding in accordance with the Province`s principles?

The ~~current~~ TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectations of the Trust and the Trustees, including the delegation of program delivery to ~~between the~~that ~~Trustees and~~ electricity distributors. The Trust, guided by the TPA and the Declaration of Trust, will distribute funds to electricity distributors across the province, to deliver energy efficiency upgrades to eligible customers. The TPA with the Affordability Fund Trust includes details on quarterly and annual reporting requirements.

Commented [KM(12]: incomplete sentence

Commented [RO(13R12]: Resolved

5. LINKAGE QUESTIONS

Q. How will the spending augment existing rate mitigation and conservation initiatives?

Ontario has taken a number of actions to lower electricity costs for all consumers. These include deferring investments in generation (e.g., new build nuclear), improving market efficiency (e.g., wind dispatch) and decreasing the cost of renewable procurements (e.g., Green Energy Investment Agreement (GEIA) renegotiation, decreasing Feed-In Tariff (FIT) prices, competitive Large Renewable Procurement).

Following the 2016 Throne Speech, a number of actions were announced to further reduce electricity costs including an 8% electricity bill rebate for residential consumers.

To help electricity consumers across the province achieve cost savings, the government is implementing a Fair Hydro Plan, which includes establishing a Fund to provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are otherwise unable to undertake energy efficiency improvements without support to help customers reduce future electricity bills and avoid customer future disconnections.

The Affordability Fund will target those customers who do not qualify for low-income conservation programs (e.g. HAP) and who cannot undertake energy efficiency upgrades without support. It is expected that many LDCs will leverage past or existing contracts with organizations delivering the HAP).

Q. How will the programs compare with the existing Home Assistance Program?

The Affordability Fund will provide energy efficiency measures to Ontarians who are not eligible for HAP, and who are unable to undertake energy efficiency improvements without support.

The Affordability Fund will provide similar measures to the HAP program, such as:

- Energy-saving light bulbs (LEDs)
- Power bars
- Energy-efficient window air conditioners
- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Additional AFT measures include: block heater timer, solar attic fan, clothes washer and dryer, electric range, and dishwasher. Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household.

The Affordability Fund was established as a $100 million fund, funded through the tax base, while the Home Assistance Program is funded through the 2015-2020 Conservation Fund from the Global Adjustment/electricity rates.

Additionally, eligibility to the Home Assistance Program is based on a standard low-income definition using Statistics Canada measure. Eligibility for the Affordability Fund is based on the energy affordability burden. This is the ratio of the utility 'asked to pay amount' divided by the 'net household income'. Electricity distributors know their customers best, so the AFT provides electricity distributors flexibility to consider other information in the determination of level of support.

It is expected that LDCs will leverage past or existing contracts with organizations delivering the HAP.

Q. Would customers using Ontario Works or other social programs be able to benefit from the Affordability Fund?

To be eligible for the Affordability Fund, an individual must own, rent or lease a residence located in Ontario and is the electricity utility account holder named in respect to the residence.

Residences that are currently eligible for the Home Assistance Program must be referred into the HAP program and are not eligible for the Affordability Fund program.

The Fund will balance the need for LDC flexibility to target customers, with eligibility principles and/or criteria and terms for LDC accountability.

Q. Given that the Rural or Remote Electricity Rate Protection (RRRP) Program and the Ontario Electricity Support Program (OESP) are being shifted from the rate-base to the tax-base, why is HAP still being funded through the rate-base?

Commented [KM(14]: is this tense correct?

Response: Technically yes, since the OESP is still feeding off of the balance of funding available in the OEB's variance account. Once this runs out, the shift to tax base will be complete.

A key focus of programs delivered through the Conservation First Framework, including the Home Assistance Program, is to provide an overall benefit to the electricity system by avoiding/deferring the need to make electricity infrastructure investments. Measures funded through HAP are required to pass cost effectiveness thresholds prior to be offered by LDCs.

On the other hand, the focus of RRRP and OESP is to provide immediate rate relief to customers. It should also be noted that the program budget for HAP is significantly smaller than OESP and RRRP. In 2015, HAP spending was around $20 million, while spending on RRRP was around $175 million.

Q. What happens to unspent money?

It is expected that the funds through the Fund will be deployed within a year or two of program launch. The TPA includes the option to extend the original funding amount into future years in the event of under spending.

The Trustees can re-direct unspent funds to a residual beneficiary, which would be a charitable organization. The Trustee shall identify the Residual Beneficiary, or if more than one the Residual Beneficiaries and their respective allocations, by consulting with and having regard to the recommendations of the Ontario Energy Board, based on those charitable organizations which provide support services for Low Income Energy Assistance Program Emergency Financial Assistance (LEAP EFA) and the Ontario Electricity Support Program (OESP) or other charities that OEB may identify as relating to the Purpose of the Affordability Fund.

Q. Does the Ministry have the ability to claw-back funds?

The TPA includes claw-back provisions to recover funds were not used for the intended purposes.

Updated for ADM approval_ SCOPA materials.pdf

From:	Kitchen, Matthew (ENERGY)
To:	Sermat-Harding, Kaili (ENERGY)
Cc:	Edwards, Matthew (ENERGY)
Subject:	Updated for ADM approval: SCOPA materials
Date:	February 26, 2018 5:00:00 PM
Attachments:	2018-02-26 TOP ISSUES AND ESTIMATES AFT_SCOPA_KSH v2.docx 2018-02-26 NUMBERS AT A GLANCE AFT_SCOPA KSH v2.1.docx

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Kaili:

Attached, please find CEEB's updated SCOPA materials – (1) Top Issues and (2) Numbers at a Glance.

CEEB prioritized these two documents; updated QAs to follow later today.

Matt

From: Schwab-Pflug, Emma (ENERGY)
Sent: February 26, 2018 4:32 PM
To: Kitchen, Matthew (ENERGY)
Cc: Syed, Usman (ENERGY); Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Matt, see attached to address Kaili's comments, all edits tracked. QAs to follow.
Thanks, Emma

From: Di Tullio, Yvonne (ENERGY)
Sent: February-26-18 2:51 PM
To: Schwab-Pflug, Emma (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: RE: SCOPA materials

Please find enclosed the 'by the numbers' and Issues note. I am working on the QAs now.

Thanks,
Yvonne

From: Schwab-Pflug, Emma (ENERGY)
Sent: February-26-18 11:16 AM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Yvonne, Omar - I am in training and haven't yet opened Kaili's edits. Omar could you take a first pass at addressing, using track changes and comment boxes, and then YVonne take a look when you are back in the office?

Please let me know if 2:30 PM will be a challenge.

Thanks,

Emma

From: Kitchen, Matthew (ENERGY)
Sent: Monday, February 26, 2018 10:43 AM
To: Syed, Usman (ENERGY); Edwards, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: RE: SCOPA materials

Usman:

KSH has reviewed the SCOPA materials and is happy. She does have a few edits though. I have tracked her edits in the attached as well as inserted her comments for you to address (highlighted in the attached).

She ideally would like all three back today but at the very least would like the note and numbers at a glance as she would like to send these two to the DM today.

Matt

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 3:15 PM
To: Edwards, Matthew (ENERGY); Kitchen, Matthew (ENERGY)
Cc: Rais, Omar (ENERGY); Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

Hi Matts – here are the SCOPA docs (clean and tracked)…

There were no tracked changes to the "numbers at a glance" document so there is only a clean version, thanks…

From: Rais, Omar (ENERGY)
Sent: February 23, 2018 2:49 PM
To: Syed, Usman (ENERGY)
Subject: FW: SCOPA materials

Hello Usman

Please find attached the cleaned copies as well as the tracked.

Thanks,
Omar

From: Syed, Usman (ENERGY)
Sent: February 23, 2018 2:25 PM
To: Rais, Omar (ENERGY)

Subject: RE: SCOPA materials

Can you please send me clean copies of these docs also, thanks…

From: Di Tullio, Yvonne (ENERGY)
Sent: February 23, 2018 12:44 PM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Rais, Omar (ENERGY)
Subject: FW: SCOPA materials

Hi Usman,

All three documents now attached. Apologies for the delay but there was a lot to update in these, and in particular the longer QA.

I am happy to discuss.

Please note that I will be out of the office between 2:15 and 3:45 on a course.

Thank you,
Yvonne

From: Rais, Omar (ENERGY)
Sent: February-23-18 11:48 AM
To: Syed, Usman (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY); Di Tullio, Yvonne (ENERGY)
Subject: RE: SCOPA materials

Hello Usman,

Please review the attached documents for SCOPA. The doc on QAs is currently being updated by Yvonne.

Best,
Omar

From: Syed, Usman (ENERGY)
Sent: February 22, 2018 3:38 PM
To: Di Tullio, Yvonne (ENERGY); Rais, Omar (ENERGY)
Cc: Schwab-Pflug, Emma (ENERGY)
Subject: FW: SCOPA materials

As discussed, can you please update by end of day, thanks…

From: Rais, Omar (ENERGY)
Sent: February 22, 2018 3:10 PM

To: Syed, Usman (ENERGY)
Subject: RE: SCOPA materials

Good afternoon Usman

Please review the attached three documents.

Thanks,
Omar

From: Kitchen, Matthew (ENERGY)
Sent: February 22, 2018 11:05 AM
To: Syed, Usman (ENERGY)
Cc: Rais, Omar (ENERGY)
Subject: SCOPA materials

Here is a link to the SCOPA materials:

\\etcptovspifs003\OCSP\EEIT\SCOPA AF Materials

From KSH:

QAs
QA on

- 'Why didn't we consider having the IESO or OEB' – from TB submissions
- Why do you need an Exec. Director
- Tough QA on 'so is it $100million or $200 million'

Collapse/weed through Tough QAs and TB QAs and update them (Usman to take on first)

Estimates Materials

- collapse both into single note

2018-02-26 TOP ISSUES AND ESTIMATES AFT_SCOPA.pdf

SCOPA 2018 AFT NOTE

OVERVIEW

- As part of the Ontario Fair Hydro Plan, the government allocated $100M towards the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
    - Not all customers who are in need are eligible for HAP.
- The Affordability Fund is being administered by an independent Trust, which will provide oversight of funds and facilitate efficient distribution of funds to electricity distributors.
- Over Summer 2017, the Trust sought input from stakeholders, including electricity distributors and representatives of social service organizations, in establishing eligibility criteria and guidance on funding allocation methodology.
- On October 24, 2017, the Affordability Fund was launched through a formal announcement and press release. The press release included information regarding a toll-free number and website through which customers are able to submit an intake form.
- As of February 23, 2018, approximately more than 4,200 applications have been received. Eligible applicants have begun receiving benefits, which can include energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- The Province expects quarterly and annual reports to be prepared by the Trust to track the impact of the Province's funding. Reports are expected to include the criteria used by the distributors to distribute the funds, challenges, lessons learned, amounts distributed, and participant feedback.
- The Trust, working with Hydro One, is currently executing program implementation agreements with interested electricity distributors, which outline program delivery guidelines and budgets.
    - The Trust has indicated that it expects Hydro One to deliver the program in service areas of those electricity distributors not interested in delivering the program.
- In implementing the Affordability Fund, the independent Trust is guided by principles which have been outlined in the Transfer Payment Agreement (TPA) between ENERGY and the Trust.
- The table below outlines the Board of Trustees for the Affordability Fund Trust

Board of Trustees for the Affordability Fund Trust

Organization	Representative
United Way Ottawa	Michael Allen (President and CEO)
Neighbour to Neighbour Centre	Denise Arkell (Executive Director)
Thunder Bay Hydro	Tim Wilson (VP Customer and Information Services)
Hydro One	Warren Lister (VP Customer Service)
Alectra	Regan Bond (VP Conservation and Demand Management)
Ministry of Energy	Kaili Sermat-Harding (Assistant Deputy Minister)

BACKGROUND

Need

- Over 2015 and 2016, Electricity distributors and other stakeholders indicated to the government that there was an immediate need to help customers in bill arrears and facing service disconnection.
    - In 2015, LDCs reported to the OEB that approximately 60,000 customers were disconnected in 2015.
    - In 2015, LDCs also reported over 560,000 residential electricity accounts in arrears in 2015; of these about 19,900 (~3.6%) accounts were eligible to participate in the Low-Income Energy Assistance Program (LEAP), which provides emergency financial assistance to low-income customers.
    - In January 2017, Hydro One submitted to ENERGY a report, “Addressing Affordability” which outlined a number of recommendations on electricity rate mitigation, including a recommendation to establish an Affordability Fund to assist struggling customers who cannot qualify for low-income conservation programs.

Establishment

- As part of the Ontario Fair Hydro Plan, in March 2017 the government announced the establishment of an Affordability Fund that will provide energy efficiency measures to electricity customers who do not qualify for the Save on Energy Home Assistance Program (HAP), and who are unable to undertake energy efficiency improvements without support.
- The Affordability Fund is being administered by an independent Trust, which is providing oversight of funds and will facilitate efficient distribution of funds to electricity distributors.

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- An interim Advisory Committee was established by the Ministry of Energy to make recommendations to the Original Trustee regarding the appointments of the Board of Trustees. The Committee acted independently to appoint the Board of Trustees. Committee members were selected because they possessed relevant knowledge and experience to identify and evaluate suitable replacement Trustees. Advisory Committee members were:
    - Brian Bentz (CEO, Alecta Utirlities)
    - Bryce Conrad (CEO, Hydro Ottawa)
    - Robert Mace (CEO, Thunder Bay Hydro)
    - Ferio Pugliese (EVP Customer Care & Corporate Affairs, Hydro One)
    - Terry Young (VP Conservation and Corporate Relations, IESO)
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). ENERGY is also represented on the Board of Trustees as a non-voting observer.

xxx~~Trustees represent a geographical cross section of the Province and thereby avoid any perception of favouritism. The Trust was established through a TPA.~~

- ~~The TPA included terms for Hydro One to establish a non-controlled independent Trust to administer and distribute funds to LDCs across the province on the basis of principles established by the Province and implemented at the discretion of the Trustees~~

Commented [KM(1]: Insert bullet(s) on now Trust was established and appointed (e.g. intern group with HO, etc.)

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How it Works

- There are three levels of support available. The level each home qualifies for depends on net household income and average electricity bill. Measures offered may vary by participating electricity distributors.
    - Level 1: households receive a Home Energy Kit with energy-saving products they can install themselves (e.g. LEDs, power bars, hot water pipe insulation).

- Level 2: Households may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include ENERGY STAR appliances (e.g. efficient air conditioners, refrigerators, and dehumidifiers).
- Level 3: For electrically-heated homes only, households that qualify for this level may receive an in-home visit from a professional Home Energy Advisor, a Home Energy Plan and upgrades that may include insulation and/or an ENERGYSTAR heat pump.

- Eligible customers are expected to start receiving benefits through the Affordability Fund in early 2018.

The sections below provide additional program details relating to the Affordability Fund. Fund program design will be an iterative process to enable continuous improvement based on feedback.

PARTICIPANT ELIGIBILITY

- It is expected that individuals receiving funding will have demonstrated a need for support to undertake home energy efficiency upgrades, and that their electricity bills represent a financial burden relative to their financial resources.
- Electricity distributors are best positioned to identify their customers who are in need of support, such as those that are in bill arrears, on repayment plans, facing service disconnection, or who are otherwise in frequent contact with a distributor's customer care centre regarding difficulty keeping up with their electricity bills.
- It is expected that social service agencies will be partners in helping to market the program and identify eligible participants.
- Eligible customers must own, rent or lease a home in Ontario, and be an electricity account holder.
- Priority is expected to be given to homes primarily heated by electricity.
- The estimated reach of the Fund will depend on energy efficiency measures and uptake.

MEASURE ELIGIBILITY

- The Affordability Fund is expected to provide similar measures to the Home Assistance Program (HAP), at no or minimal cost, such as:
    - Energy-saving light bulbs (LEDs)

- Power bars
- Energy-efficient window air conditioners
- Energy-efficient refrigerators
- Basement, wall or attic insulation

- Air source heat pumps are also an eligible measures under the Affordability Fund for homes that are electrically-heated.

Additional Program Design Details – If pressed:

- The number of households that the $100 million investment in the Affordability Fund will support will depend on the types of measures installed per household. Based on current program design, recipients could receive measures ranging from $260 to over $6,000 per customer (including air source heat pumps).

- Based on the current program design, it is estimated that the $100M investment in the Affordability Fund will serve approximately 50,000 households ***(NTD: it would be prudent not to publicize the 50k number).***

ADMINISTRATION

- The Affordability Fund Trust was established on March 23, 2017, when the Original Trustee signed a Declaration of Trust (drafted by ENERGY, in collaboration with Hydro One).
    - The Original Trustee was Computershare, a professional Trustee company and a trusted partner in some of the largest public and private organizations in Canada and globally.
    - On March 24, 2017, ENERGY entered into a TPA with the Original Trustee to flow $100 million from the tax base to the Affordability Fund Trust.
- On June 19, 2017, the Original Trustee was replaced with a Board of Trustees which includes representation from two social agencies (United Way Ottawa and the Hamilton-based Neighbour to Neighbour Centre) and three LDCs (Thunder Bay Hydro, Hydro One and Alectra). The Ministry of Energy is also represented on the Board of Trustees as a non-voting observer.

~~Table 1: Board of Trustees for the Affordability Fund Trust~~

~~Organization~~	~~Representative~~
~~United Way Ottawa~~	~~Michael Allen (President and CEO)~~

~~Neighbour to Neighbour Centre~~	~~Denise Arkell (Executive Director)~~
~~Thunder Bay Hydro~~	~~Tim Wilson (VP Customer and Information Services)~~
~~Hydro One~~	~~Warren Lister (VP Customer Service)~~
~~Alectra~~	~~Raegan Bond (VP Conservation and Demand Management)~~
~~Ministry of Energy~~	~~Kaili Sermat-Harding (Assistant Deputy Minister)~~

- Hydro One has played an important role in facilitating the establishment of the Trust, and ~~will continue~~is continuing to play an administrative support role to the Board of Trustees in the design and launch of the Affordability Fund.

Commented [KM(2]: Check document to ensure tense is correct/consistent.

Commented [RO(3R2]: Resolved

- The current TPA between ENERGY and the Affordability Fund Trust, and the Affordability Fund Declaration of Trust, convey the expectation that Trustees and electricity distributors will acknowledge the financial support of the province in connection with this new funding program, including in any external communications or marketing to electricity customers.

CABINET REPORT BACK

- ENERGY ~~had been~~was minuted to report back to TB/MBC by Q1 2017-18 with program details and a performance framework, and through the 2018-19 PRRT with spending and results achieved to date, a value for money assessment, and if needed at that time a multi-year funding request.

- ENERGY's first report back to TB/MBC through the PRRT process was in October 201~~8~~7 with final program details and a performance management framework for the Fund. In February 2018, ENERGY's report back to TB/MBC included progress to date and next steps.

    - As of December 31, 2017, the AFT had spent $1,709,724, and earned interest on investment of $98,969,457.

- ENERGY will provide a Value of Money Assessment in its Q3 2018-19 report back to MBC/TB.

- ENERGY will work with the Trust to assess the need for a potential new TB funding request, based on Fund performance and continued identified needs.

2018-02-26 NUMBERS AT A GLANCE AFT_SCOPA KSH _2.pdf

NUMBERS AT A GLANCE – AFT

AFFORDABILITY FUND TRUST – KEY FIGURES

- As of February 23, 2018, **over 4,280 applications** had been received. Eligible applicants are expected to start receiving benefits in the coming months, which can include the installation of energy efficiency measures such as LED light bulbs, power bars, better insulation, and energy efficient window air conditioners and refrigerators.
- As of December 31, 2017, the AFT had spent **$1,709,724**, and earned interest on ~~s~~investment of **$98,969,457**.
- As of February 20, 2018, **60 (of about 70**) electricity distributors have indicated an interest in delivering the Affordability Fund program, and **36% of the $100M budget** has been allocated.

APPENDIX – INTERNAL DATA

NTD: The following detailed information has been shared with the Board of Trustees only, and in part with the broader LDC community. Advise releasing information only in aggregate (as bullets above).

Effective 2~~3~~2-Feb-2018	**Total to Date**
New Applicants (waiting for trusted conversation)	1,186
Abandoned (after 3 attempts to call), Duplicates, Invalid and Ineligible	286
Sent to LDCs or Ready to be Sent to LDCs	2,810
Total Applications Processed	**4,280**

Commented [KM(1]: include sum of applicatoins to date (I konw it is on the first page)

Commented [RO(2R1]: Resolved

Metrics As of Feb 2~~0~~2, 2018*	**Amount**
Number of Participating LDCs	60
Number of ~~LDC~~ Implementation Agreements Signed	24
Budget Allocations Received	22
Up-Front Allocations Posted	$8 M
Dollars Allocated Overall	$32 M
Percent of $100M ~~($89.1M)**~~ Allocated ($89.1M)**	36%

** $89.1M has been earmarked for the electricity distributors. The balance is intended for AFT's central admin and other costs to establish and oversee the Affordability Fund

Commented [KM(3]: Include a list of LDCs who have signed

Commented [RO(4R3]: See table below

Metrics:

Number of Participating LDCs: refers to those LDCs who have indicated they are interested to deliver the Affordability Fund program to their customers. The 60 LDCs represent a total base of 5,068,320 residential customers.

Number of Implementation Agreements Signed: The AFT can delegate an electricity distributor to deliver the Affordability Fund program through execution of an Implementation Agreement between the Trust and the distributor.

Percent of $100 M Allocated: This is the total of submitted and approved budget requests. In addition to implementation agreements, the distributors must submit to the AFT a budget request. Once approved distributors can receive an up-front allocation (to cover start-up/admin) and then recover costs on basis of invoicing. Distributors must establish a separate AFT account for all money which is to be received from the Trust. About $32 million of the budget has been allocated, $8 million of which will be provided up-front.

AFT LDC BUDGET ALLOCATION

- The following 22 LDCs have submitted budget allocations; 2 additional LDCs have signed Implementation Agreements but have yet to submit their budget allocations.

Name of LDC	Up-Front	Total Allocation
Alectra Utilities	$3,027,500	$12,110,000
Algoma Power	$143,500	$574,000
Canadian Niagara Power Inc.	$144,500	$578,000
Chapleau Public Utilities Corporation	$61,570	$246,280
Cornwall Street Railway Light and Power	$369,438	$1,477,750
Energy+ Inc.	$464,060	$1,856,234
Entegrus Powerlines Inc.	$158,420	$633,680
Erie Thames Powerlines Corporation	$116,250	$465,000
Espanola Regional Hydro Distribution Corporation	$149,760	$599,040
Greater Sudbury Hydro Inc.	$607,393	$2,429,570
Hearst Power Distribution Company Limited	$63,130	$252,520
Kitchener-Wilmot Hydro Inc.	$310,225	$1,240,900
Midland Power Utility Corporation	$136,815	$547,260
Newmarket- Tay Power Distribution Ltd.	$379,620	$1,503,860
North Bay Hydro Distribution Limited	$305,153	$1,220,610
Northern Ontario Wires Inc.	$248,685	$994,740
Oakville Hydro Electricity Distribution Inc.	$134,312	$537,250
PUC Distribution Inc.	$618,498	$2,473,990
Renfrew Hydro Inc.	$137,625	$550,500
Welland Hydro-Electric System Corp.	$200,484	$801,936
West Coast Huron Energy Inc.	$52,705	$210,820
Westario Power Inc.	$185,125	$740,500
Total	$8,014,768	$32,044,440

~~LDC~~	~~Allocation~~
~~Chapleau PUC~~	~~$ 246,280~~
~~Entegrus Inc.~~	~~$ 633,680~~
~~Erie Thames Power~~	~~$ 465,000~~
~~Espanola Regional Hydro~~	~~$ 599,040~~

~~Greater Sudbury Power~~	~~$ 2,429,570~~
~~Hearst Power~~	~~$ 252,520~~
~~Kitchener-Wilmot Hydro~~	~~$ 1,240,900~~
~~Midland PUC~~	~~$ 547,260~~
~~Newmarket-Tay Power Distribution~~	~~$ 1,503,860~~
~~North Bay Hydro~~	~~$ 1,220,610~~
~~Northern Ontario Wires~~	~~$ 994,740~~
~~PUC Distribution~~	~~$ 2,473,990~~
~~Renfrew Hydro~~	~~$ 550,500~~
~~Welland Hydro~~	~~$ 801,936~~
~~Westario Power Inc.~~	~~$ 740,500~~

Provincial Fiscal Year AFT Administrator Fiscal Year	2017 (06-12)	2017 Actuals	Variance	2018
Sub-total Labour	$ 825,671	$ 193,123	$ 632,548	$ 950,000
Sub-total IT	$ 700,500	$ 407,567	$ 292,933	$ 2,280,000
Sub-total SME	$ 720,000	$ 770,710	$ (50,710)	$ 418,000
Sub-total Legal	$ 350,000	$ 248,017	$ 101,983	$ 150,000
Sub-total Mktg and Comms	$ 165,000	$ 73,322	$ 91,678	$ 165,000
Sub-total Board Trustees Expenses	$ 43,880	$ 16,945	$ 26,935	$ 162,260
Sub-total Stakeholder Engagement	$ 30,000	$ 40	$ 29,960	$ 145,000
Sub-total Centralized Services	$ 350,000	$ -	$ 350,000	$ 300,000
Total Cost	$ 3,185,051	$ 1,709,724	$ 1,475,328	$ 4,570,260

- The 2018 projection is higher than that of 2017 as it accounts for the full year, includes the Parachute Work Management system, and cost centre charges (anticipated to increase with increased activity).

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Weekly Rate Mitigation Meeting (1).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Imbrogno, Serge (ENERGY)
Subject:	Weekly Rate Mitigation Meeting
Date:	October 31, 2017 3:29:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 31.docx 2017-10-27 OFHP Matrix - Week of Oct 31_Tracked.docx

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Hi Deputy,

Attached are materials for tomorrow's Rate Mitigation Implementation meeting:

- Agenda;
- Outstanding Business Issues; and
- OFHP Matrix (tracked and clean).

Ok to share with MO and broader group?

Thanks,
Martin

2017 Outstanding Business Issues - Week of O_14.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

2017-10-27 OFHP Matrix - Week of Oct 31_Clean_5.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

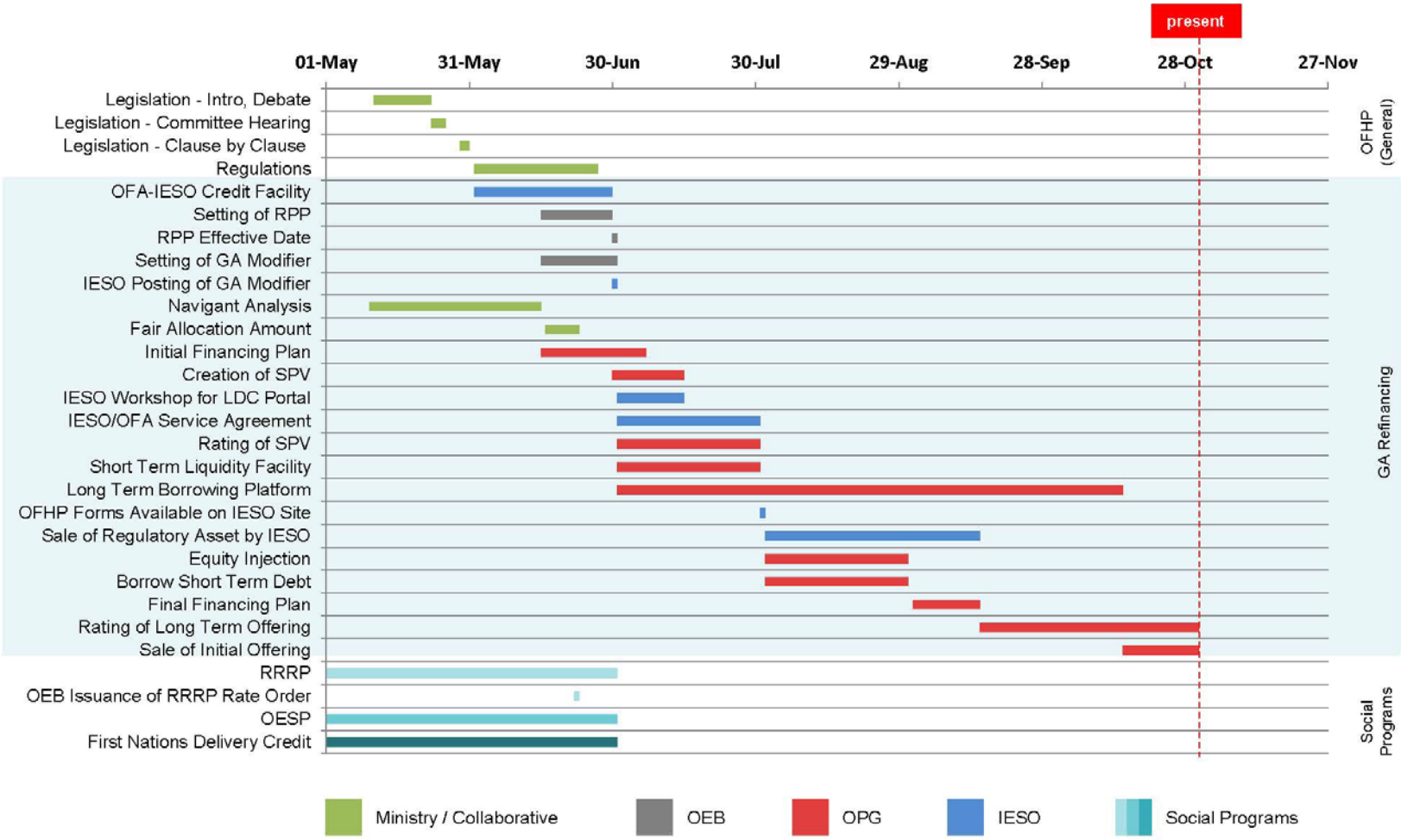
Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Agenda_Weekly Rate Mitig Implmentation Group__19.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 31, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Protection and Assurances Agreement (OFA / OPG)
    - Commercial Agreement (OPG/ IESO)
    - OPG's Financing Plan (OPG)
    - Regulatory Amendments (ENERGY)

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-10-27 OFHP Matrix - Week of Oct 31_Track_1.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
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• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
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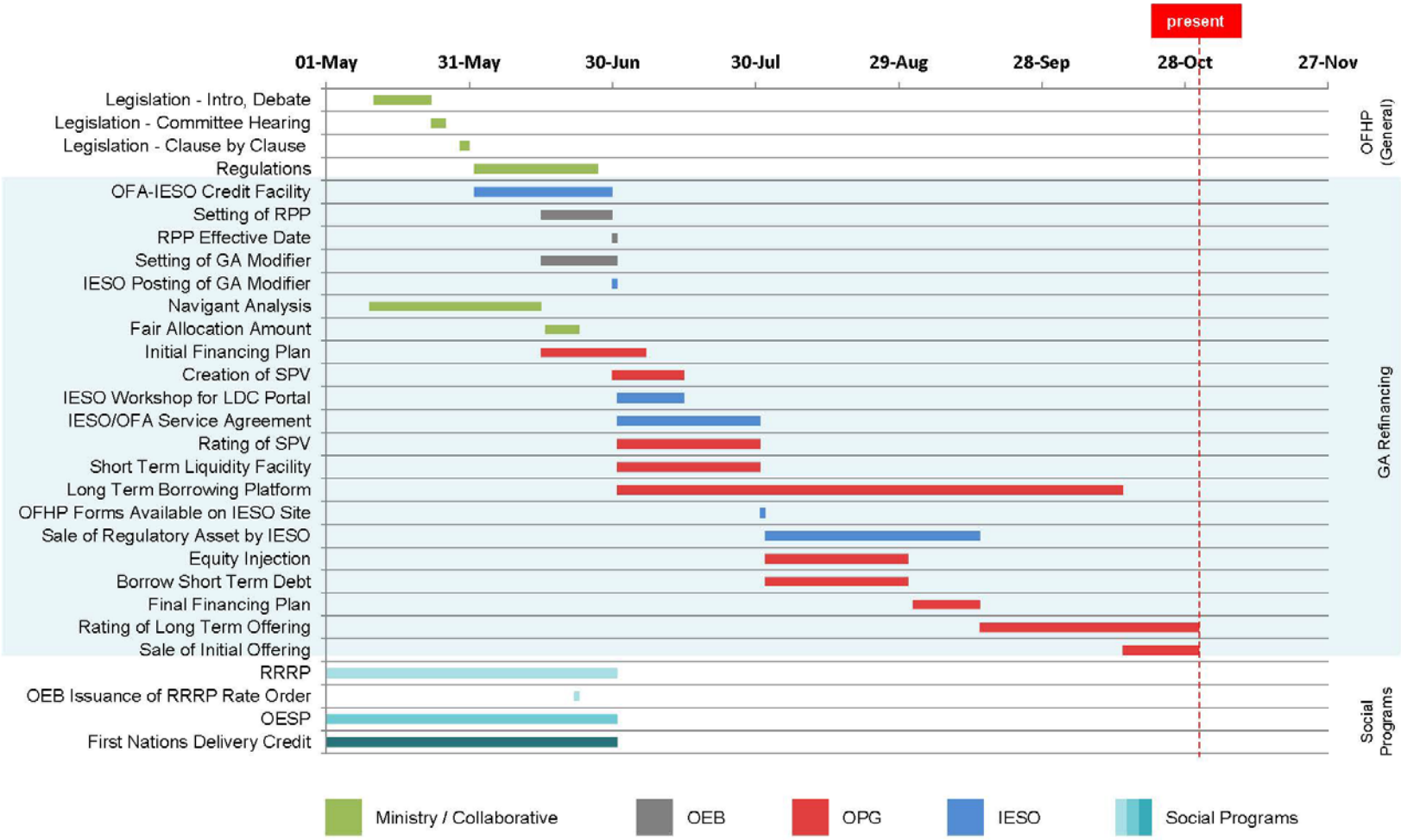
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations	• Continue this work as part of 2017 LTEP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Weekly Rate Mitigation Meeting (2).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Teliszewsky, Andrew (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY)
Subject:	Weekly Rate Mitigation Meeting
Date:	October 31, 2017 3:52:42 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 31.docx 2017-10-27 OFHP Matrix - Week of Oct 31_Tracked.docx

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Hi Andrew,

Attached are materials for tomorrow's Rate Mitigation Implementation meeting:

- Agenda;
- Outstanding Business Issues; and
- OFHP Matrix (tracked and clean).

Thanks,
Martin

2017 Outstanding Business Issues - Week of O_15.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
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PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
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2017-10-27 OFHP Matrix - Week of Oct 31_Clean_6.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 30, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
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Item	Key Deliverables / Considerations	Timing / Next Steps
		performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • AG special report on OFHP and Government Response released October 17, 2017 • Search for records responding to AG request (emails, responsive documents) completed week of October 25	• TBD – AG Annual Report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
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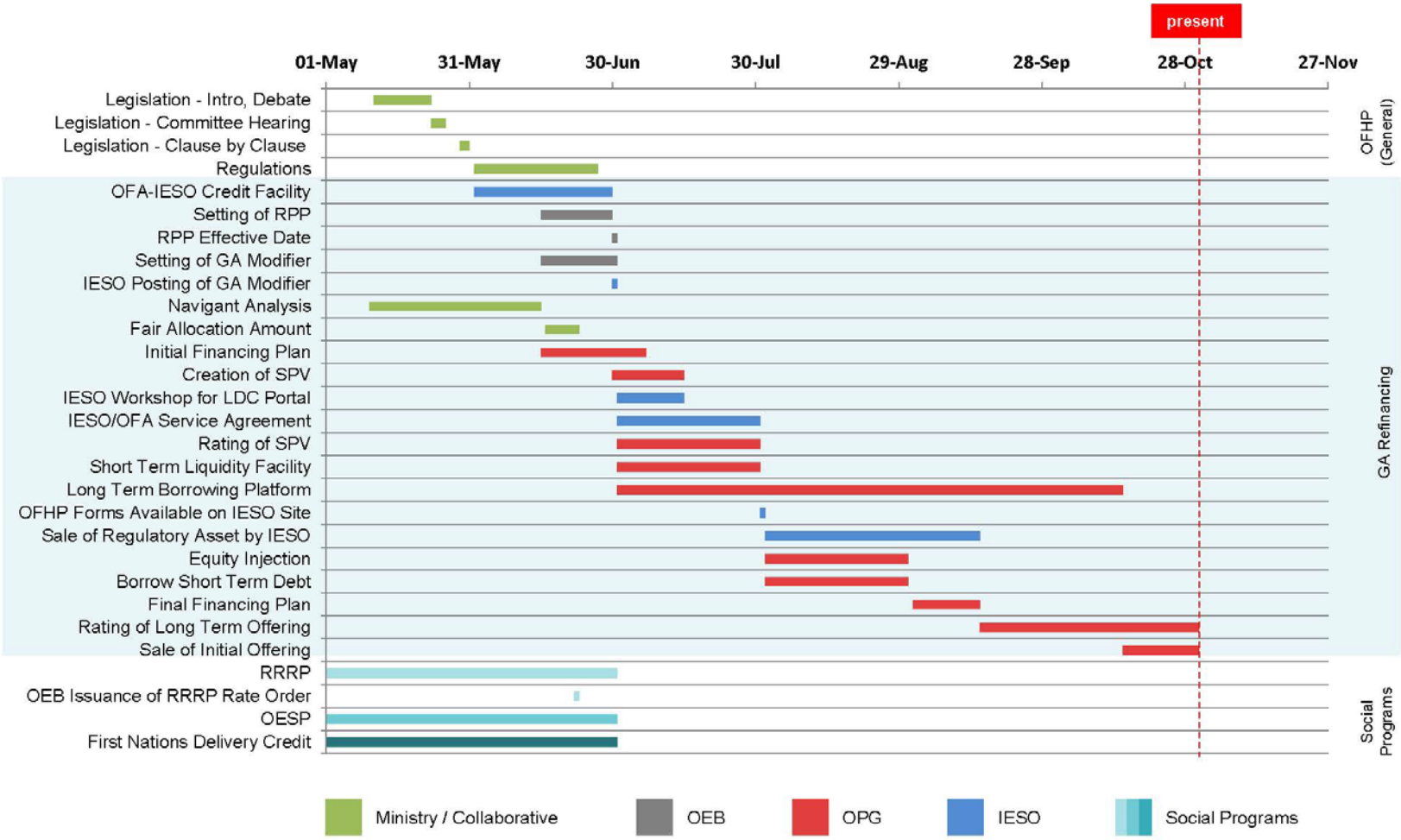
Item	Key Deliverables / Considerations	Timing / Next Steps
	• Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) <u>Considerations</u> • IESO's stakeholder engagement re Market Renewal is ongoing.	

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Agenda_Weekly Rate Mitig Implmentation Group__20.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
November 1, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Protection and Assurances Agreement (OFA / OPG)
    - Commercial Agreement (OPG/ IESO)
    - OPG's Financing Plan (OPG)
    - Regulatory Amendments (ENERGY)

2) Sepcial Report – Debrief

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-10-27 OFHP Matrix - Week of Oct 31_Track_2.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 30, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	Recent Action Items • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

Item	Key Deliverables / Considerations	Timing / Next Steps
2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months • CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	• LRC package being developed for proclaiming OEBA provisions and amending OESP regulation; scheduled for December 11 • Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Receiving regular updates from H1 on enrollment
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • October 12 – Soft launch of microsite and 1-800 number • October 24 – Formal announcement in Hamilton involving the Minister of Energy • As of Oct. 23 – 66 applications from 6 LDCs processed through the AFT program • On Oct. 24 – the Trustees held a webinar with 200 participants to overview program design, walk-through the web site, and answer distributor questions • Next Trustees meeting is scheduled for November 2, 2017	**Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • The Fund will have an iterative design process to support continuous improvement, and will revisit design elements every 6 months and measures every 3 months • ENERGY has amended the TPA with the Affordability Fund Trust to require use of the Ontario logo in Fund marketing and communications and is waiting for the Trustees to sign-back • Report back to TB/MBC through the PRRT process with final program details and a

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• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ministry review OCC proposal to expand ICI outreach program • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD)	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
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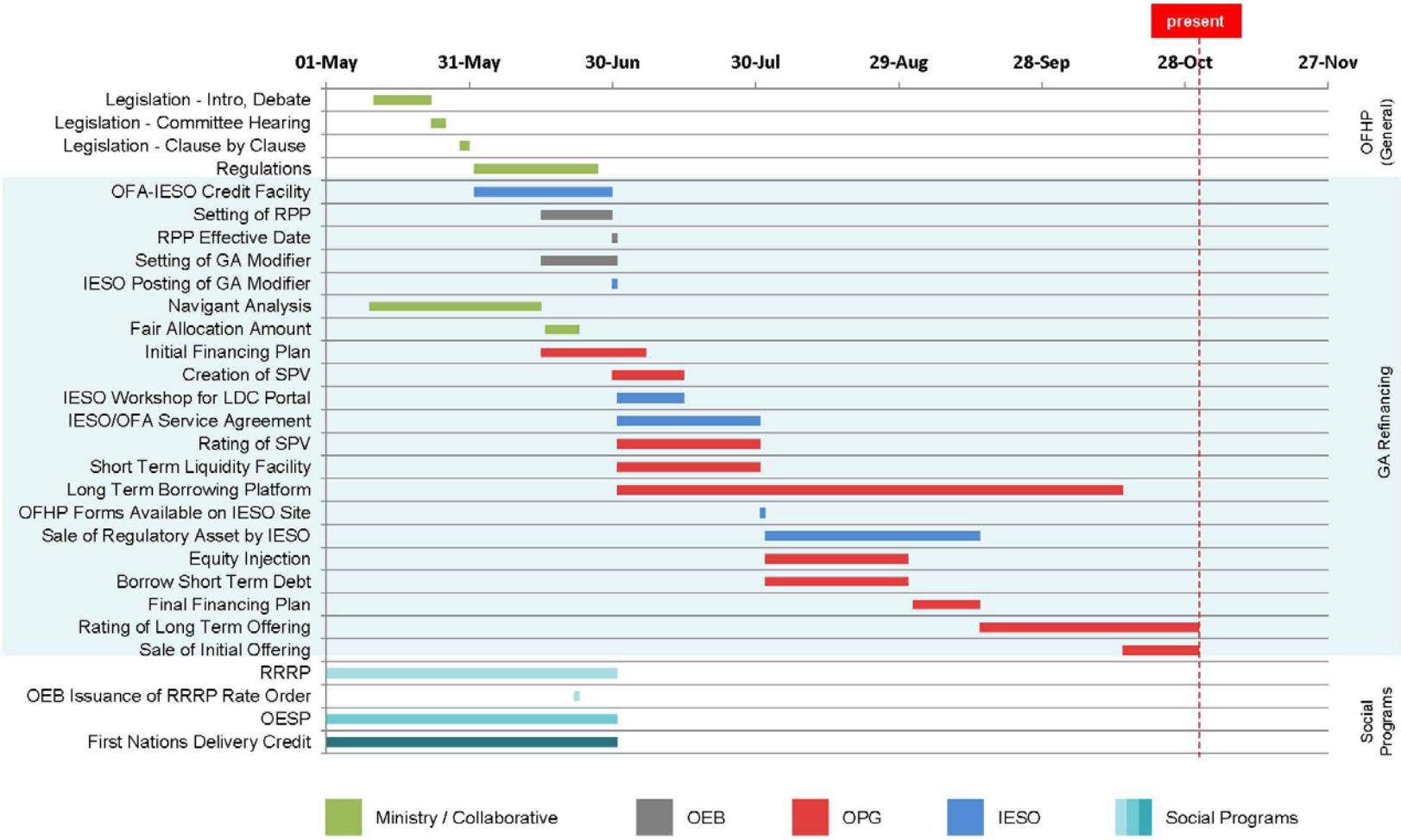
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

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Weekly Rate Mitigation Meeting .pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Nucciarone, Michael (ENERGY); Cox, Hilary (ENERGY)
Subject:	Weekly Rate Mitigation Meeting
Date:	October 31, 2017 3:24:36 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 30 - ENE.DOCX 2017-10-27 OFHP Matrix - Week of Oct 31_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 31.docx 2017-10-27 OFHP Matrix - Week of Oct 31_Tracked.docx

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Hi Martin: attached are materials for tomorrow's meeting. Our usual products include: Agenda, Outstanding Business Issues and OFHP Matrix (tracked and clean).

Gadi and Ken H won't be able to attend the meeting; however, Ken would like to dial in to the meeting. Can you send him the dial-in number.

Give me a call if you have any questions. Thanks, Steen

2017 Outstanding Business Issues - Week of O_16.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** In advance of OPG Board Meeting on November 13, 2017
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees / OPG Fees and Interest Recovery	• OPG is allowed to charge a management fee for its services, which will account for the amount of debt issued, OPG performance, fees charged for comparable services, and ensure OPG operates on a commercial basis.	• Amendments to Ontario Regulation 206/17 (General) • Amendments to O. Reg. 206/17 (General)	• ENE, OPG, OEB and OFA finalized regulatory amendments to enable OPG to establish and charge fees in its role as Financial Service Matter (FSM), provide a methodology for the calculation of those fees and define the role of the OEB in reviewing and approving those fees • Regulatory amendments were also finalized to enable the FSM to recover fees and interest amounts from IESO

	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers during the inflationary cap period will be zero		during the inflationary cap period, and would enable IESO to record such amounts in the variance account **Timing**: LRC on October 30, 2017
Acceleration and Negative Fair Allocation Amounts (FAA)	• OPG has advised that additional amendments to O. Reg. 206/17 (General) may be required to satisfy accounting requirements, that would address unintended consequences of negative FAA amounts and the impacts of a potential acceleration	• Amendments to O. Reg. 206/17 (General)	• ENE and OPG considering further amendments to the General Reg. **Timing:** LRC on November 20, 2017 and/or December 2017
Letter of Credit	• OPG has advised that an IESO Letter of Credit is required to backstop smaller Local Distribution Companies (LDCs) that do not have credit ratings	• Amendments to O. Reg. 429/04	• ENE, IESO, and OPG considering amendments to O. Reg. 429/04 to enable the recovery of Letter of Credit carrying costs from specified consumers **Timing:** LRC on November 20, 2017 and/or December 2017

2017-10-27 OFHP Matrix - Week of Oct 31_Clean_7.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • OPG continuing to work with rating agencies • Ongoing Business Items: o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account ▪ ENE and IESO considering amendments to O. Reg. 429/04 to enable IESO recovery of cost associated with the letter of credit o OPG Financing Plan ▪ OPG to provide ENERGY a draft o Acceleration and negative FAA ▪ ENE and OPG considering further amendments to O. Reg. 206/17 o Subordinate Debt Loan Agreement o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms by October o Payment in Lieu of Taxes Exemption ▪ MOF/Tax Policy working on comfort letter/regulation regarding PILs for OPG	• October 30, 2017 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Week of November 6, 2017 – OPG Draft Financing Plan • November 20, 2017 (TBD) – LRC additional amendments to O. Reg. 206/17 (General) to address acceleration and negative FAA issues and IESO carrying cost for the letter of credit • November 13, 2017 – OPG Board meeting • Late November or early December – OPG Initial debt issuance • December (TBD) – LRC

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• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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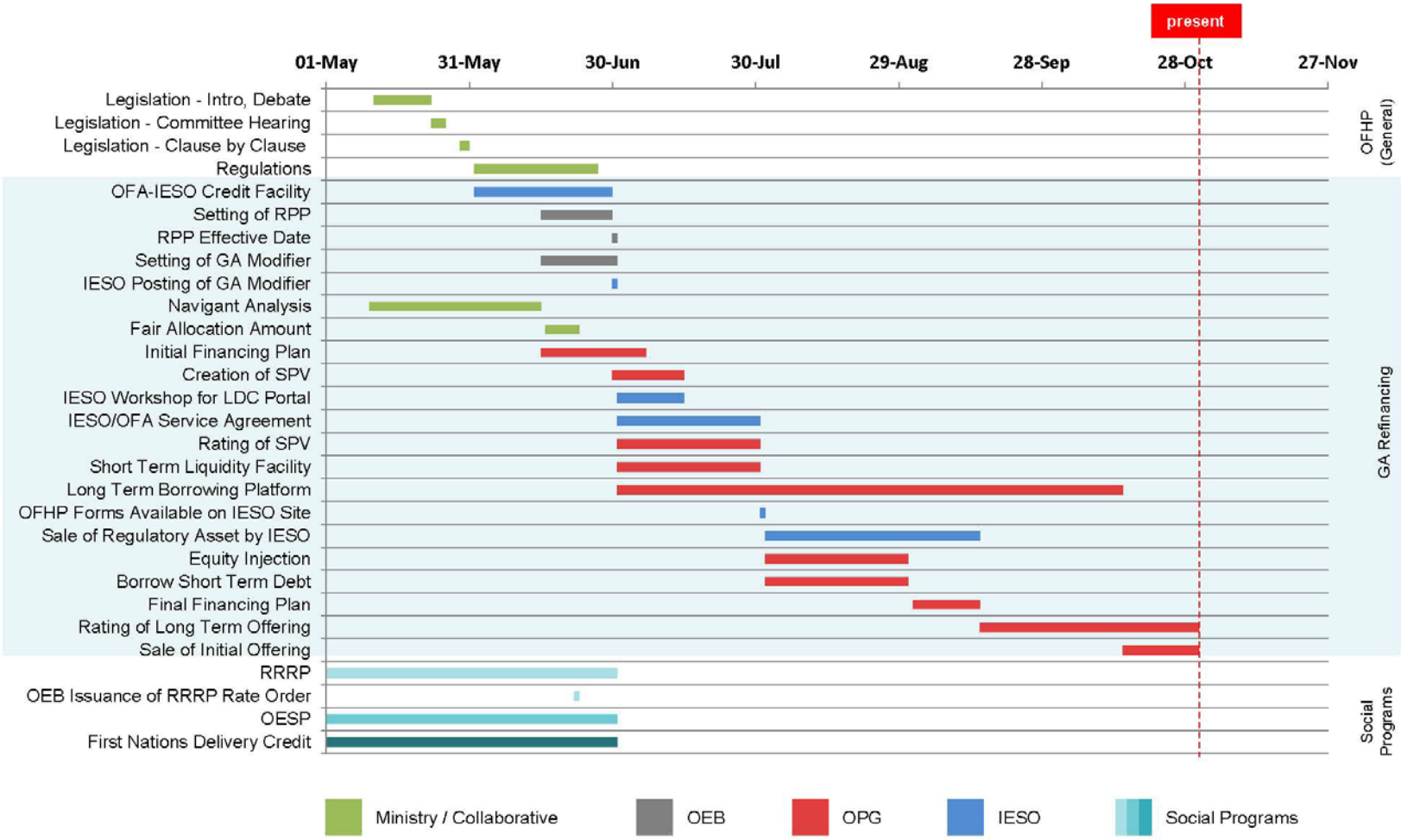
Ontario Fair Hydro Plan Implementation



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Agenda_Weekly Rate Mitig Implmentation Group__21.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 31, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / ENERGY)
    - Provincial Protection and Assurances Agreement (OFA / OPG)
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Notes:

2017-10-27 OFHP Matrix - Week of Oct 31_Track_3.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 31, 2017

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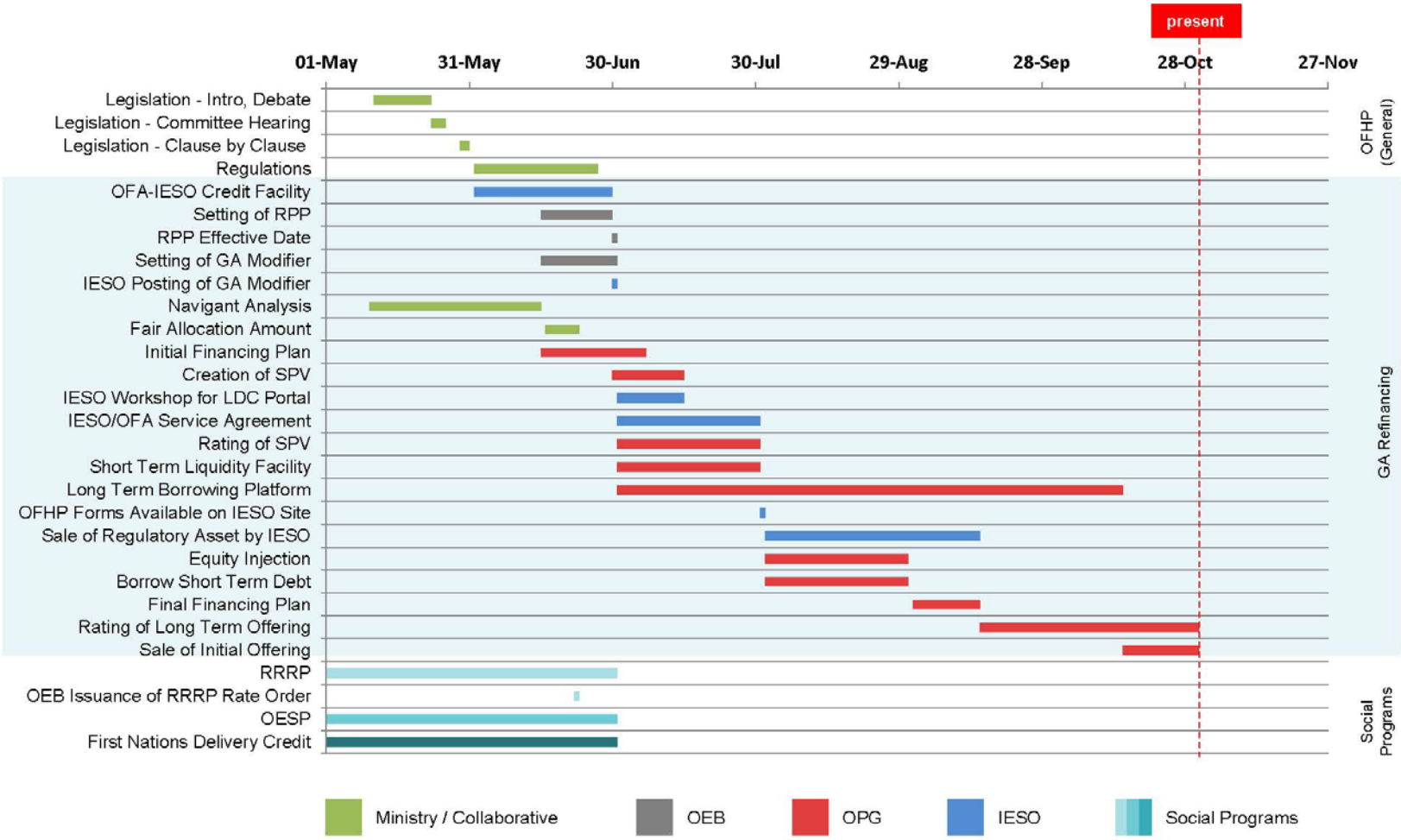
Ontario Fair Hydro Plan Implementation



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Weekly Rate Mitigation Meeting(1).pdf

From: Schlaepfer, Martin (ENERGY)
To: Imbrogno, Serge (ENERGY)
Subject: Weekly Rate Mitigation Meeting
Date: October 11, 2017 7:06:00 PM
Attachments: 2017 Outstanding Business Issues - Week of Oct 9_Tracked.docx
2017 Outstanding Business Issues - Week of Oct 9_Clean.docx
Agenda_Weekly Rate Mitig Implmentation Group_ Oct 11.docx
2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Tracked (2).....docx
2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

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Hi Deputy,

Attached are the suggested products for tomorrow's rate mitigation meeting:

1. Agenda
2. Matrix (tracked and clean)
3. Business (tracked and clean)

For broader circulation to the group, I would only send around the clean docs rather than tracked.

Ok to share with MO and broader group?

Thanks,
Martin

2017 Outstanding Business Issues - Week of O_17.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

2017 Outstanding Business Issues - Week of O_18.pdf

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Agenda_Weekly Rate Mitig Implmentation Group__22.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 11, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees and Interest Payments (ENERGY)
    - Letter of Credit (ENERGY / IESO / OPG)

2) Report

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-27 Consolidated - OFHP Matrix - Week _38.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

Item	Key Deliverables / Considerations	Timing / Next Steps
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2) Broadening Rural or Remote Rate Protection (RRRP) (SNAP)		
• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
3) Expanding Ontario Electricity Support Program (OESP) (SNAP)		
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

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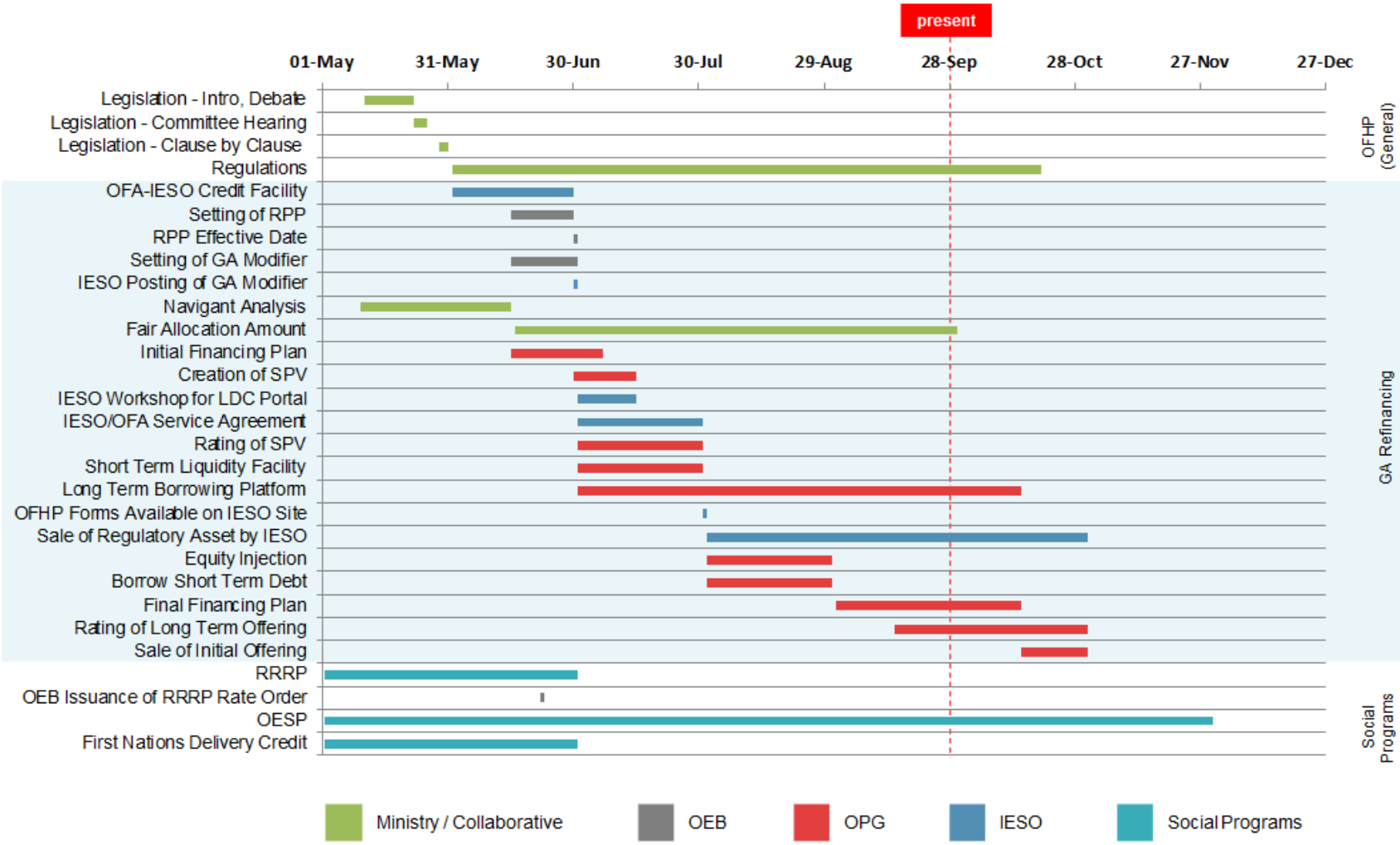
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017-09-27 Consolidated - OFHP Matrix - Week _39.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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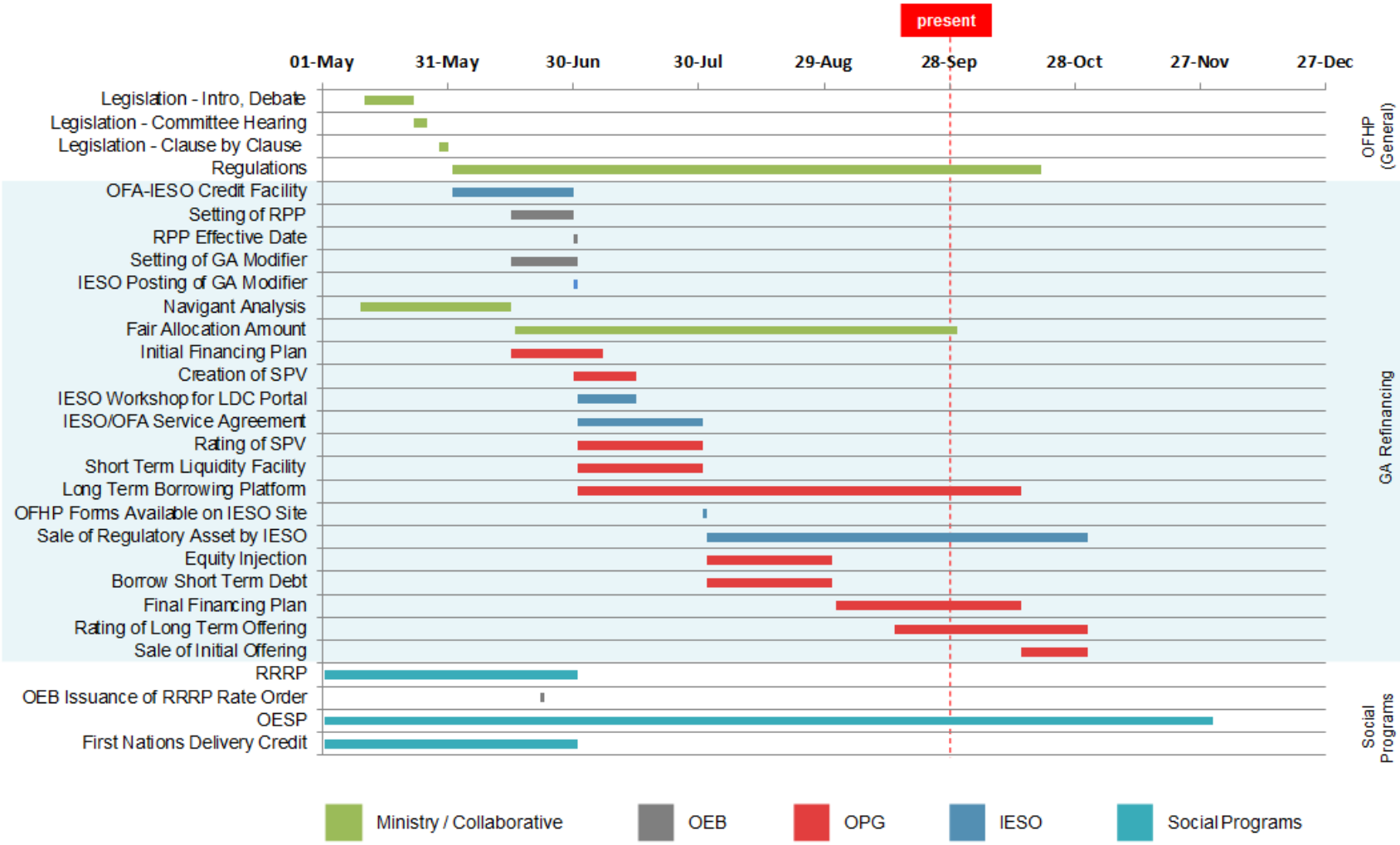
Ontario Fair Hydro Plan Implementation



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Weekly Rate Mitigation Meeting(2).pdf

From:	Schlaepfer, Martin (ENERGY)
To:	Teliszewsky, Andrew (ENERGY)
Cc:	Imbrogno, Serge (ENERGY); Whittington, Matt (ENERGY); Baker, Carys (ENERGY)
Subject:	Weekly Rate Mitigation Meeting
Date:	October 11, 2017 8:23:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 9_Tracked.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 11.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Tracked (2).....docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

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Hi Andrew,

Attached are the products for tomorrow's rate mitigation meeting:

1. Agenda
2. Matrix (tracked and clean)
3. Business (tracked and clean)

For broader circulation to the group, I will only send around the clean docs rather than tracked.

Thanks,
Martin

Martin Schlaepfer
Director of Operations
Deputy Minister's Office
Ministry of Energy
T: 416-326-7688
E: martin.schlaepfer@ontario.ca

2017 Outstanding Business Issues - Week of O_19.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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2017 Outstanding Business Issues - Week of O_20.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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2017-09-27 Consolidated - OFHP Matrix - Week _40.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	Recent Action Items • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
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• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	Recent Action Items • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

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• ENERGY, MOF/OFA, Auditor General (AG)	Recent Action Items • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
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• ENERGY	Recent Action Items • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
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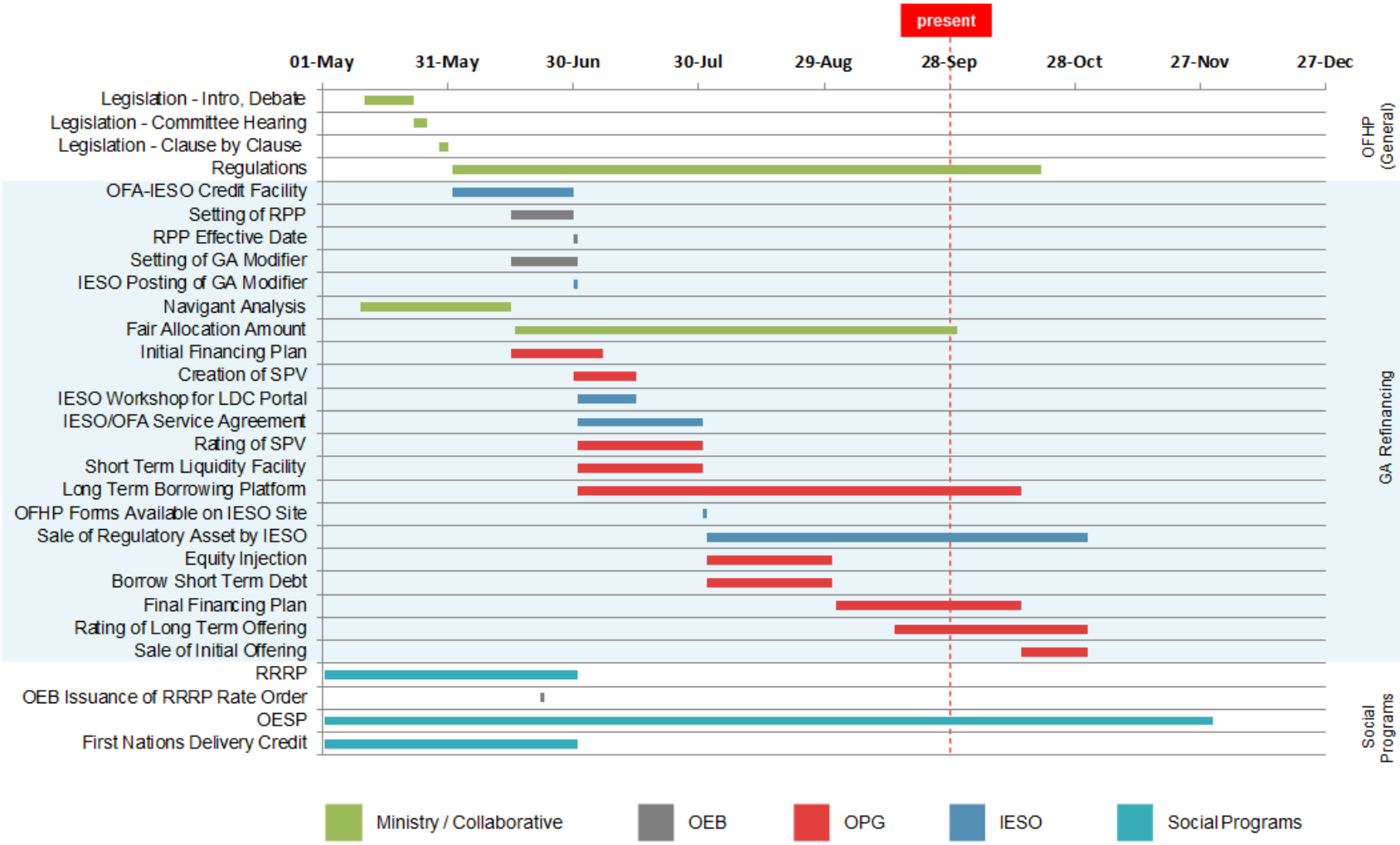
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

2017-09-27 Consolidated - OFHP Matrix - Week _41.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
• ENERGY, LSB, IESO, OPG, OEB, TBS and MOF	<u>Recent Action Items</u> • Ongoing Business Items o Provincial Protection and Assurance Agreement ▪ OFA / OPG / MOF / ENERGY and OPCD working to finalize Agreement. Note: Term Sheet has been approved by TB/CAB o Equity Injection Process ▪ OPG seeking Board approval of Master Subscription Agreement on September 29. ▪ Province to finalize internal mechanisms in October o Commercial Agreement ▪ OPG and IESO working to finalize Agreement ▪ Ongoing discussions regarding the "letter of credit" to backstop smaller LDCs without ratings or using a reserve account. Note: Funding source for carrying costs still TBD o FAA Letter ▪ On September 28, 2016, letter was sent to OPG Board Chair ▪ ENERGY and OPG exchanged modelling data to support FAA and RA amounts in Minister's letter o Management Fees (Regulation) ▪ ENERGY, OPG, OEB and OFA working to finalize proposed amendments to O. Reg. 206/17 (i.e., general regulation) which would determine role of OEB in determining fees OPG charges ▪ Leg Counsel Draft being circulated o Fees and Interest Recovery During the Inflationary Cap Period (Regulation) ▪ ENERGY, OPG, IESO and OFA working to finalize proposed regulatory amendments to O.	• October 16 / 30 – LRC for regulatory amendments package (i.e., to address management fees and interest and fees collection during the Inflationary Cap period) • Late November 2017 – OPG Financing (TBD)

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• ENERGY, LSB and LDCs	Recent Action Items • All LDCs have indicated they have implemented the program • IESO has begun to submit reimbursement claims to the Ministry	• Will work on updated cost projections for PRRT submission • Discussions have begun with OEB over content of cost forecast report, as contemplated in Regulation
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8) Expanding ICI (ESP/COMs)		
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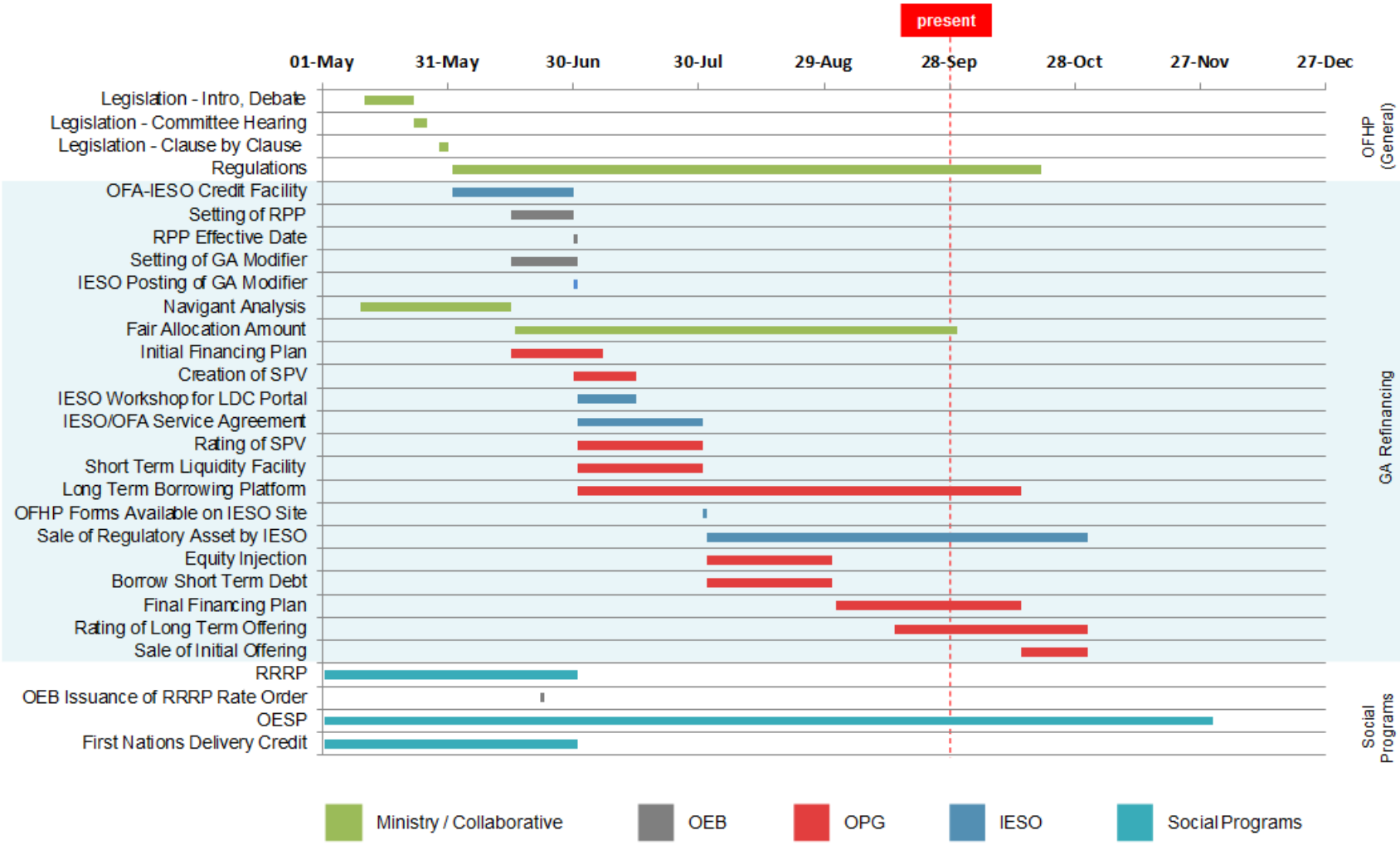
Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.

Weekly Rate Mitigation Meeting.pdf

From:	Hume, Steen (ENERGY)
To:	Schlaepfer, Martin (ENERGY)
Cc:	Hilary Cox (ENERGY) (Hilary.Cox@ontario.ca)
Subject:	Weekly Rate Mitigation Meeting
Date:	October 11, 2017 6:08:00 PM
Attachments:	2017 Outstanding Business Issues - Week of Oct 9_Tracked.docx 2017 Outstanding Business Issues - Week of Oct 9_Clean.docx Agenda_Weekly Rate Mitig Implmentation Group_ Oct 11.docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Tracked (2).....docx 2017-09-27 Consolidated - OFHP Matrix - Week of October 9_Clean (2).docx

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Hi Martin: attached are the products for tomorrow's rate mitigation meeting:

1. Agenda
2. Matrix (tracked and clean)
3. Business (tracked and clean)

For broader circulation to the group, I would suggest sending around the clean docs rather than tracked.

Thanks, Steen

2017 Outstanding Business Issues - Week of O_21.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

Issue	Overview	Supporting Documentation	Next Steps
Provincial Protection and Assurance Agreement	• Province to provide contingent supports to enable structure	• Draft Term Sheet • Performance Guarantee • Service Guarantee	• MOF / ENE to finalize Protection Agreement based on Term Sheet approved by TB/CAB. **Timing:** Fall for finalization of Protection Agreement
Equity Injection	• Province to purchase shares of OPG on a monthly basis	• Master Subscription Agreement • Service Level Agreement • Notice of Subscription • Amendment to Articles	• OFA / ENE to determine required monthly process and sign-off mechanism **Timing:** October for internal provincial mechanism
PILs Exemption	• Province to mitigate cost to ratepayers by minimizing PILs payable by OPG financing vehicle	• Tax Regulation	• MOF legal to draft comfort letter and regulation (currently with MOF for review) **Timing:** Fall for regulation
Subordinated Debt Loan Agreement	• OPG will lend the equity injection from the Province to the Trust by way of subordinated debt	• Draft Term Sheet • Debt Loan Arrangement	• OFA to provide comments • OPG to draft Debt Loan Arrangement **Timing**: Fall
OPG Management Fees	• OPG is allowed to charge a management fee for its services made up of 1)base fee and 2) variable fee 3) Third-party costs (e.g. banking fees)	• Draft Base Fee framework • Draft Variable Fee framework • Amendments to Ontario Regulation 206/17	• ENE, OPG, OEB and OFA working to develop proposed regulatory amendments which would determine role of OEB in determining fees OPG charges **Timing**: Proposed regulation expected to be reviewed at October 16 / 30 LRC (TBD)
OPG Fees and Interest Recovery	• OPG accounting advice that interest and fees must be recovered during "inflationary cap" period for GA Refinancing to proceed as planned under the OFHPA. Note: Net impact on ratepayers will be zero	• Amendments to Ontario Regulation 206/17 (i.e., general regulation). Note: No longer proposing to amend GA regulation	• ENE, OPG, IESO and OFA working to develop proposed regulatory amendments which would enable fees and interest amounts to be recovered during the Inflationary Cap period.. **Timing**: Proposed regulatory amendments to be reviewed at October 16 / 30 LRC (TBD)

2017 Outstanding Business Issues - Week of O_22.pdf

Outstanding Business Issues – Ontario Fair Hydro Plan

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Agenda_Weekly Rate Mitig Implmentation Group__24.pdf

WEEKLY RATE MITIGATION IMPLEMENTATION GROUP
October 11, 2017

Agenda

1) GA Refinancing
    - General Business Update (OPG / IESO / IGS)
    - Provincial Protection and Assurances Agreement (OFA/OPG)
    - Fees and Interest Payments (ENERGY)
    - Letter of Credit (ENERGY / IESO / OPG)

2) Report

3) Other OFHP Initiatives
    - RRRP, OESP and FN (SNAP)
    - Affordability Fund (CRED)

Notes:

2017-09-27 Consolidated - OFHP Matrix - Week _42.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

Item	Key Deliverables / Considerations	Timing / Next Steps
1) Refinancing the Global Adjustment (ESP/IGS/LSB)		
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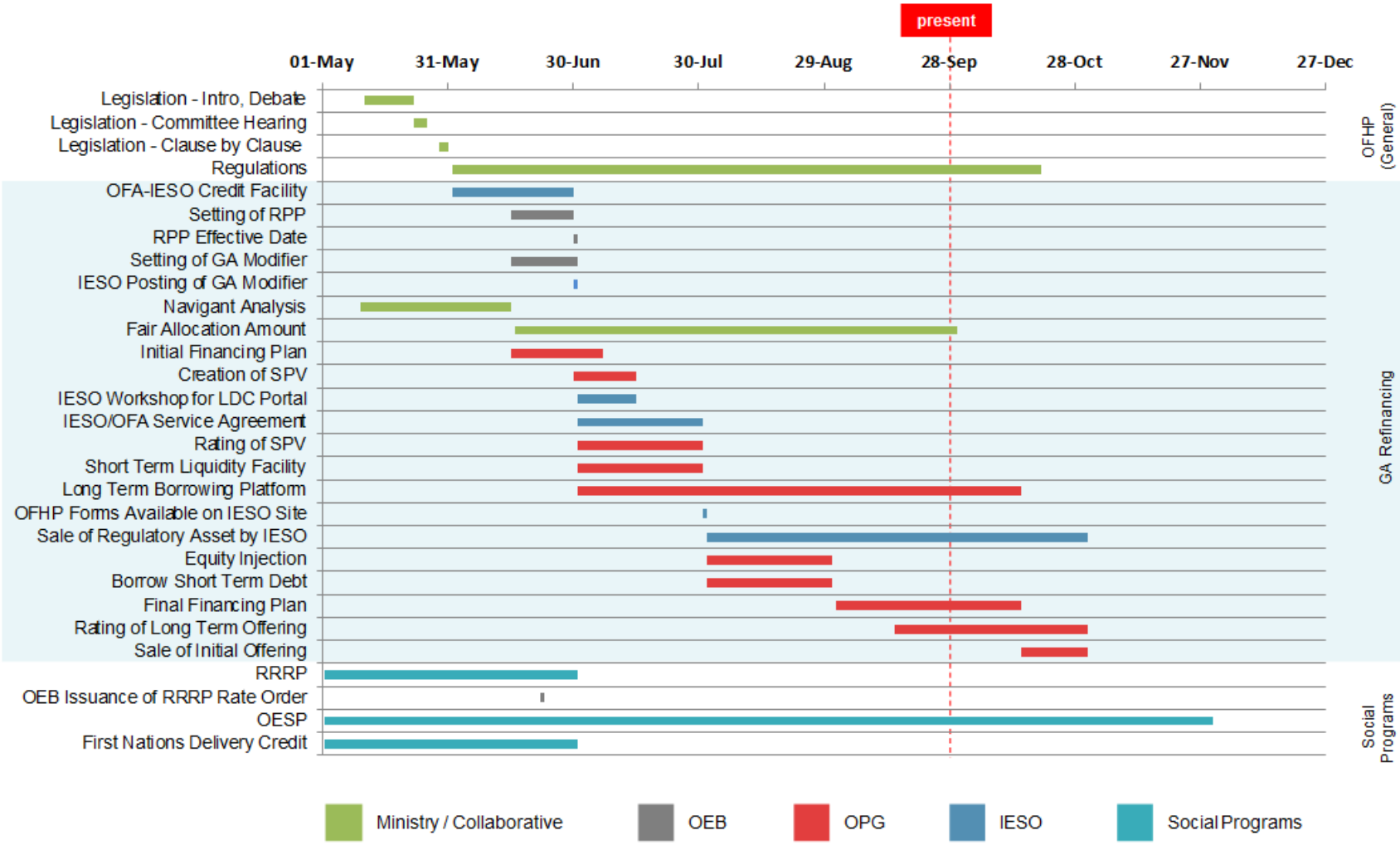

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2017-09-27 Consolidated - OFHP Matrix - Week _43.pdf

Implementation of Ontario's Fair Hydro Plan
Week of October 9, 2017

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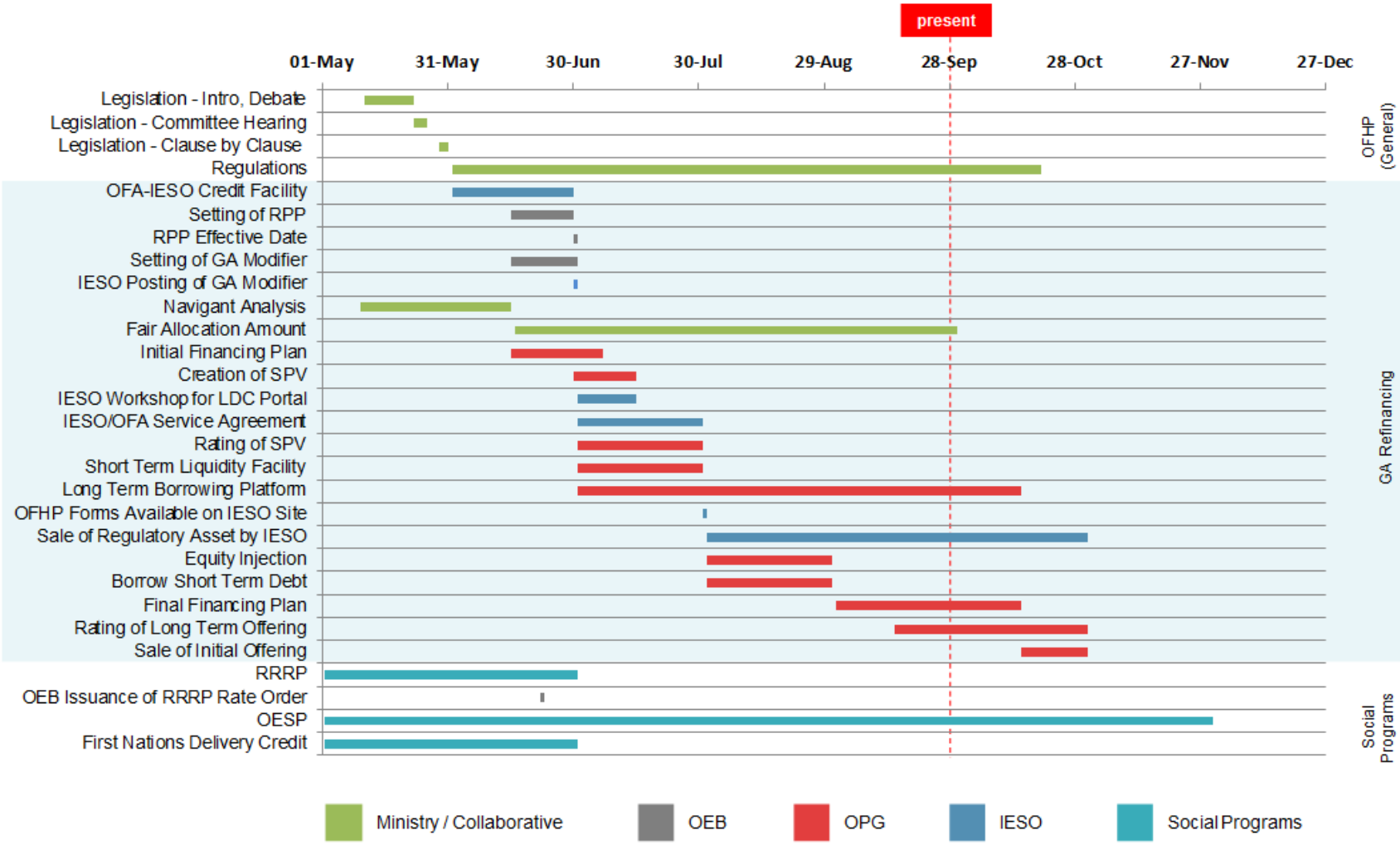
• ENERGY, LSB, MCSS and OEB	Recent Action Items • July 26 TB/MB approval for MCSS to expand FTEs and create team dedicated to OESP enrolment, using funds approved on March 1, 2017 under FHP. Sought 50 FTEs, but only received 20 – MCSS is considering report-back in the fall to ask for more FTEs • OEB and MCSS completed data exchange to identify SA clients currently not enrolled in OESP. Outreach calls began late August, with direct mail-outs in late September. New call centre to be ready to receive calls in October, and MCSS to continue developing software solution for automation over next several months	• Continue to work with OEB to build up the Ministry's knowledge base on administering the OESP

Item	Key Deliverables / Considerations	Timing / Next Steps
	• CRA approval of proposal for e-signatures on OESP applications. OEB is working with service provider to upgrade online application process (November), and CRA will formally accept e-signature process by amending MOU with Ministry of Finance • Ministry is targeting November/December to proclaim OEBA amendments to shift OESP to tax base, along with supporting regulatory amendments • Ministry and OEB have initiated work to transfer OESP to government	
4) Providing a First Nations On-Reserve Delivery Credit (SNAP)		
• ENERGY and LSB	<u>Recent Action Items</u> • All LDCs have indicated they have implemented the program. • FNDC post card has been distributed to First Nations Band Councils • IESO has begun submitting claims for reimbursement to the Ministry	• Will work on updated cost projection for PRRT • Hydro One to provide update on program enrollment week of October 2
5) Establishing an Affordability Fund (CRED)		
• ENERGY, IGS, LSB, Blakes, CSD, OPCD, TBS, MOF and H1 (KPMG and Osler)	<u>Recent Action Items</u> • On June 19, 2017, Computershare, the original trustee of the Affordability Fund Trust, was replaced with a Board of Trustees which includes representation from two social agencies and three LDCs (United Way Ottawa / Neighbour to Neighbour Centre / Thunder Bay Hydro / Hydro One / Alectra). The Ministry of Energy is also represented on the Board of Trustees in a non-voting capacity • Hydro One, in its administrative capacity, is providing administrative support, including coordinating stakeholder engagement and developing program principles and details for	**October 2017:** • Soft launch of microsite Oct 12 • Oct. 23 formal announcement involving the Minister **Fall 2017:** • The Trustees are considering the use of Ontario 211 services for the Affordability Fund • ENERGY is amending the TPA with the Affordability Fund Trust to request use of the Ontario

Item	Key Deliverables / Considerations	Timing / Next Steps
	review and approval by the Board of Trustees (have engaged Accenture to assist) • Preliminary consultations with LDCs were undertaken in July. On August 1, Hydro One hosted a consultation session with LDCs to seek input on program design; over 30 LDCs participated • On August 28, Trustees briefed the Ministry on progress to date, including proposed program design and implementation • Trustees worked through program design concepts and details from mid-August to mid-September in order to launch the program in October. An iterative design process is contemplated, allowing for potential updates to the program on a regular basis • Hydro One convened meetings with a number of LDCs in late September to review program design details • Most recent Board meeting took place on October 5, 2017	logo in Fund marketing and communications • Report back to TB/MBC through the PRRT process with final program details and a performance management framework including outcome measures and targets **Late 2017/early 2018:** • ENERGY can apply for additional funds through an in-year TB submission based on performance and need. Trust term can be extended with amended/new TPA if agreed by Trust
6) Engagement with Officers of the Legislature		
• ENERGY, MOF/OFA, Auditor General (AG)	<u>Recent Action Items</u> • ENERGY and other ministries (MOF and TBS) have received additional/broader scope request from AG. Responses to be coordinated across ministries • Third-party hired to undertake electronic search of records • IESO indicates that Deloitte has provided KPMG a second opinion on the accounting treatment that is supportive, which was provided to the AG • AG attended special meeting of IESO Board on OFHP • AG has provided a draft special report on Ontario's Fair Hydro Plan (OFHP) for comment	• Fall – Responding to AG Request (Ongoing) • Week of September 25 – Ministry is responding to draft AG special report on OFHP • TBD – Release date of AG special report
7) Bill Presentment (SNAP/LSB)		
• ENERGY	<u>Recent Action Items</u> • Ongoing Ministry work re bill presentment	• 2017-2018 – Bill redesign

Item	Key Deliverables / Considerations	Timing / Next Steps
8) Expanding ICI (ESP/COMs)		
• ENERGY, LSB, IESO and LDCs	Recent Action Items • Ongoing OCC outreach campaign to promote ICI • Ongoing outreach with LDCs being undertaken by IESO • CME proposal (TBD) • Ministry reviewing a revised proposal from CME	• Quarterly Report Backs re ICI to TBS / MBC
9) Energy Sector Efficiencies (i.e., Ontario Energy Board and IESO) (SNAP / ESP)		
• ENERGY, LSB, OEB and IESO	**OEB:** • Directive / Letter (TBD) Considerations • Signal efficiencies intent in OEB business plan letter • Work with OEB/LDCs on LTEP document and proposed directive to OEB • Mandate Review implementation is an opportunity to reiterate expectations. **IESO:** • Directive / Letter (TBD) Considerations • IESO's stakeholder engagement re Market Renewal is ongoing.	• Continue this work as part of 2017 LTEP

Ontario Fair Hydro Plan Implementation



* Note: Preliminary timeline with tentative dates that are subject to change.